Enterprise Risk Management
A Practical Approach to Implementation

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Presentation Outline

• Today’s Healthcare Environment
• What and Why ERM
• COSO’s ERM Framework
• Board Involvement
• Healthcare Risks
• Process
  – Phase I: Governance & Structure
  – Phase II: Assessment Tools
  – Phase III: Deliverables
Today’s Healthcare Environment

• Healthcare organizations are complex
• New challenges and emerging risks
• Financial and operational well being at risk
• Continually changing reimbursement rules and increasing state and federal regulations
• Educated consumers asking for more
• IRS scrutiny of tax exempt status
• New accounting standards
• Technology improvements
• “Expectation gap” between producers of information and users of information
Healthcare Regulatory Environment

- IRS Regulations
- HIPAA Compliance
- State Regulations
- Stark Laws
- SOX-Cascade
- Medicare False Claims Act
- Medicare Fraud & Abuse
- Revenue Enhancement
- Cost Reduction

CEO, CFO, Owner and board member fiduciary responsibilities

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Leading Providers

- Understand the risks most pertinent to their organization
- Manage the risks in an integrated fashion
- Prioritize risk management efforts around
  - Risks having the biggest potential impact
  - Risks most likely to occur
Enterprise Risk Management Concepts

Managing today’s healthcare risks can be a competitive advantage.
What is Enterprise Risk Management?

• Holistic approach to identifying risk – more than regulatory compliance, financial, medical liability, patient safety, general liability or SOX
• Creates a portfolio view of risks
• Identifies interrelationships and interdependencies among risks
• Offers ability to manage risks within and across business units
• Improves organization’s ability to identify and seize opportunities – competitive edge
What is Enterprise Risk Management?

- Considers risk in the formulation of business strategy
- Method to achieve business objectives
- Involves all levels of management
- Process to identify, analyze, mitigate/manage, measure and communicate risks across organization
- Measurement of risks includes severity and magnitude of impact
- Can eliminate duplicates efforts [Internal Audit, Compliance, Risk Management]
Benefits of Enterprise Risk Management

• Successful risk identification & mitigation become key elements of a strategic plan
  – Competitive advantage for those with ERM capability & discipline
  – Mitigate downside exposure and capitalize on upside opportunities
• Reduced financial losses
• Improve business performance
• Enhanced risk identification and assessment processes
• Improved awareness and collaboration
• Improved decision making and accountability
• Improved regulatory compliance
Risk of No Enterprise Risk Management

- All risks are a threat if ignored
- Bankruptcies
- Fraud
- Restatement of earnings
- Decrease business valuation
- Loss of customers
- Careers destroyed
- Lack credibility in market
COSO’s ERM – Integrated Framework

- COSO [Committee of Sponsoring Organizations of the Treadway Commission] is a voluntary private sector organization that encompasses five professions
  - American Accounting Association
  - American Institute of CPAs
  - Financial Executives International
  - Institute of Internal Auditors
  - Institute of Management Accountants
COSO ERM – Integrated Framework

• States “ERM 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 its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”
COSO ERM Components

- Internal Environment – entity’s risk culture and risk appetite
- Objective Setting – risk appetite is considered during objective setting
- Event Identification – internal & external events are identified that present risk or opportunity & are included in strategy & objective setting process
- Risk Assessment – likelihood & impact of risks on established objectives
COSO ERM Components

- Risk Response – decision whether to avoid, accept, reduce or share risk
- Control Activities – policies are established to ensure management’s risk responses are carried out
- Information & Communication – thorough & timely communication to support effective execution of roles & responsibilities
- Monitoring – ongoing with modifications made as necessary
COS Risk Domains - Expanded

• Operational – core business including systems and processes. Example: outpatient care
• Financial – ability to earn, raise or access capital. Example: bonds
• Human – recruiting, retention and managing workforce. Example: worker’s compensation
• Strategic – ability to grow and expand. Example: joint ventures
• Legal/Regulatory – statutory, regulatory compliance, licensure, accreditation. Example: HIPAA, OSHA, JC
• Technology – biomedical & information technologies. Example: CPOE
• Governance – board and committee structure, and roles and responsibilities. Example: Audit Committee Charter
ERM Components & Expanded Risk Domains

- Internal Environment
- Objective Setting
- Event Identification
- Risk Assessment
- Risk Response
- Control Activities
- Information & Communication
- Monitoring

- Operational
- Financial
- Human
- Strategic
- Legal/Regulatory
- Technology
- Governance
Risks and Control

- Operational Risks
- Human Risks
- Legal/Regulatory Risks
- Governance Risks
- Financial Risks
- Strategic Risks
- Technology Risks

Control Environment

- Control Procedures
- Monitoring

ENTITY

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Who is responsible for ERM?

- Everyone!
- Board of directors provide guidance, direction and monitoring
- Audit Committee, Risk Committee or full board receive “dashboard” on risk and establish risk tolerance
- CEO has ultimate ownership and sets tone for ERM process
- Each level of management stays informed and takes ownership of risks at their level
- Chief Risk Officer, if one exists, is facilitator and challenger of process
- Risk Management Team comprised of CEO, CFO, COO, CRO, CIO, CNO, CMO, etc to oversee and support process
Board Involvement

*There are growing pressures for boards to be smarter, more transparent and more rigorous in their pursuit of great governance.*
Organizational Readiness for ERM

- Success depends on organization’s readiness
  - Is the Board requesting a risk management strategy for organization?
  - Is CEO and executive team willing to lead & take ownership for the process? [not an Internal Audit responsibility]
  - Is risk approach proactive or reactive?
  - What is the risk tolerance?
    - Profitable organizations are willing to tolerate more volatility
    - Expressed in level of self-insurance
Boards of Directors Fiduciary Role Questions

- What do we hold in trust, and for whom?
- What are the fiduciary, but non-financial roles of our boards and committees?
- How do we know the organization is fulfilling its mission?
- Does a proposed initiative effectively advance our mission?
- What safeguards do we have in place to avoid well publicized fiduciary failures?
- If we held an annual stakeholders meeting, what would we say about the fiduciary performance and the board’s effectiveness as a steward?
- What is the evidence that we are a trustworthy organization? What are some examples of times in which we earned the title “trustworthy”?
- What are our major financial vulnerabilities? What are we doing as an organization and a board to address them?
- Even though we are not bound by Sarbanes-Oxley, are there some provisions we should adopt?
Governance Challenges: Which Fit?

- Need stability with growth
- Geographic distance and demographic diversity
- Many decision makers
- Complex regulatory compliance issues
- Competition for stakeholders’ loyalty
- Large capital requirements
- Tough fiscal pressures
- Press to deliver on economies of scale
- Need to deliver on promise of mission for caring and curing
- Calls for faster, smarter, and more ethical, more transparent and cost-effective governance
- Press for diversity of experiences & views of our staff and board
- Calls for enhanced quality and safety
- Growing government, media, and bond holder interest in performance

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Six Core Board Responsibilities

• Determine the future of the organization
• Ensure the quality of clinical care and customer service
• Protect the financial health of the organization
• Ensure effective executive leadership and management
• Develop, improve, and perpetuate an effective governance function
• Reflect the community served and strengthen relationships with key stakeholders
Building an Enterprise Risk Management Program
A Practical Approach for Leading Providers
Nature of the Risk

• Risk is universal
• Risk is not properly identified and managed by most organizations, including governments
• Need a common risk vocabulary
• Need improved risk management methodologies
• Risks are diverse & inherent to the business operations
• If non-clinical risks are not managed they are just as hazardous as clinical risks
Internal Risks

- Policies and Procedures
  - Internal controls
- Contracting
  - Vendor Relationships
  - Physician Relationships
- Financial Reporting
  - Financial Statements
  - Tax Returns
  - Cost Reports
  - Investor Reporting
  - Credit Risk
  - Liquidity Risk
- Crisis Management Program
  - Business Continuity Plan
- Human Resource Management
  - Hiring & Terminations
  - Employee Relations
- Governance
  - CEO Succession
- Clinical Practices
  - Quality
  - Core measures
  - Evidence Based
- Information Technology
  - Security
  - Disruptions
- Document Management
External Risks

- Office of the Inspector General
- CMS
- State Health Department
- OSHA
- EPA
- Investors
- CCAC
- Litigators
- Past Employees
- HIPAA
- IRS
- Auditors
- Competition
What About the Unknown?

God at His computer
Managing Risk Can Improve Results

Annualized total shareholder returns (1998-2003) for differing degrees of risk model sophistication and risk tool usage

Source: PA Consulting Survey of Global Banks
Misunderstanding Risk is Devastating

• Subprime Debacle—Some Win—Some Got Killed
  – Countrywide
  – Washington Mutual
  – Merrill Lynch
  – Goldman Sachs

• Black Swans
  – Beyond the unexpected
  – Exposure to positive and negative unknowns
Compliance Manages Risk

- Risk Assessment: Estimating the probability of an event occurring and the magnitude of effects if the event does occur. (Probability x Loss)
- Risk Management: Process of identifying, assessing, and controlling risks arising from operational factors and threats and making decisions that balance risks and costs with mission benefits. From the US Army

  - Compliance: Adherence to a set of rules, processes or procedures to control or mitigate risk that is determined by either internal or external forces.
  - The debate: IS COMPLIANCE A JUDGEMENT CALL LIKE MUCH OF RISK MANAGEMENT IS?
And Do It All Day, Everyday

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<th>Current Risk Managers</th>
<th>Risk Approaches Used</th>
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<td>- Case Management</td>
<td>- Clinical/critical pathways</td>
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<td>- Medical Affairs</td>
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<td>What’s Really Different?</td>
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<td><strong>Current</strong></td>
<td><strong>ERM</strong></td>
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<tr>
<td>• Siloed</td>
<td>• <em>Integrated</em> view of risk-across the organization</td>
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<tr>
<td>• Board oversight often limited</td>
<td>• <em>Stratification</em> of Risk into a portfolio</td>
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<tr>
<td>• No infrastructure</td>
<td>• <em>Systematic, rigorous, continuous, coordinated</em> well defined <em>process</em></td>
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<tr>
<td>• No standards</td>
<td>• Senior Leadership Owns It</td>
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<tr>
<td>• Lack of rigor and quantitative analyses</td>
<td>• Linked to strategy and business objectives</td>
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A Simple Framework

- Set Scope
- Determine Approach
- Execute the Assessment
- Develop Mitigation Plan
- Monitor
Enterprise Risk Management Approach

**Phase 1** – Implement governance and reporting standards

**Phase 2** – Enterprise-wide risk assessment that engages all levels of management and all divisions of organization

**Phase 3** – Implementation of risk mitigation plans, monitoring and reporting
Phase I: Governance and Structure

• Establish Board or Committee responsibility
  – Receives “dashboard” report from management on risk
  – Reviews risk tolerance

• Establish a management’s risk committee to oversee the program
  – Composition includes leaders from major operations (CEO, CFO, COO, CCO, CNO, CMO, CIO, etc)
    • CEO should chair
    • Limit to a manageable size (5 to 8)
  – May have subcommittees that support the overall enterprise risk management structure
Phase I: Set Scope

Risk Drivers

- Financial
- Geo-Political
- Environmental
- Strategic
- Regulatory
- Reputational
- Technology
- Clinical
- Risk
- Risk

Drivers
Phase I: Set Scope
### Phase I: Determine Approach

#### Structure
- Trial/Grant
- Departmental
- Process
- Topic

#### Tools
- Checklists
- 1-1 interviews
- Group interview
- Electronic data gathering/interviews
- What If exercises
- Scenario modeling
- Hazard Assessment
Phase I: Determine Approach

• Probability
  – High, Medium, Low
  – Imminent, Probable, Possible, Unlikely
  – Scary, Unfortunate, Who Cares

• Impact
  – High, Medium, Low
  – Multivariate
    • Financial, Clinical, Reputational, Political
Phase II: Look Everywhere

- Board Members
- Executives
- Vendors
- Partners
- Community Members
- Department Heads
- Employees
Phase II: Enterprise Risk Management Process

Step 1 Deliverable
- Financial
- Operational
- Technology
- Governance
- Strategic
- Human

Preliminary Risk Universe

Step 2 Deliverable
- Surveys
- Interviews or Facilitated Group Sessions

Final Risk Universe

Step 3 Deliverable
- Prioritize
- Resources
- ERM Plan

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Phase II – Enterprise Risk Assessment

Gathering Information on Risk

• Review and understand components of the strategic plans
  • Major acquisitions and consolidations
  • Major initiatives
  • New operations
  • Lines of business outside the norm
  • Significant capital expenditures
  • Vendor and physician relationships
  • Competition and market share information

  – Review financials for trends
    • Revenues
    • Expenses
    • Growth
    • Loss
    • Major initiatives
Phase II – Enterprise Risk Assessment

Gathering Information on Risk (continued)

- Internal and External Audit Findings
  - External auditor’s reports: The financial report, management letter comments, significant audit adjustments
  - Internal auditor’s reports and findings from prior years
  - Regulatory reports or investigations (CMS, DHS)
  - Survey Results (JC, CLIA, CMS, DHS)
  - Insurance Utilization Reports (general & professional liability)

- Information Technology Plan
  - Major IT initiatives such as system implementations or significant upgrades
  - IT control environment, system security and system password policies
Phase II – Enterprise Risk Assessment

Gathering Information on Risk (continued)

- **Operations**
  - Capacity (inpatient, outpatient, ED)
  - Revenue cycle performance
  - Technology needs (CT, MRI, surgical)
  - Consulting activities/results

- **Human**
  - Employee benefit trends
  - Employee satisfaction
  - Turnover rate
  - Vacancy rates (physicians, nurses, technicians, leadership)

- **Surveys/software tools to identify risk**
  - Email surveys internally on risk
  - Purchased risk assessment tools (software)
Phase II – Enterprise Risk Assessment

Gathering Information on Risk (continued)

- Clinical Practices
  - Care initiatives
  - Core measures
  - Patient safety, National Patient Safety Goals
  - Evidence based practices
  - Medical staff and medical directors

- Management Interviews
  - The process owner for the processes and business units to be reviewed
  - Typical interviewees: Compliance Officer, Controller, Director of Marketing, Director of HR, Legal, Operations, Director of Research Affairs
Phase II – Enterprise Risk Assessment

Gathering Information on Risk (continued)

- Minutes from Board and Board Committees
  - Finance Committee
  - Audit Committee
  - Executive Hiring Committee
  - Compliance Committee

- Industry Updates
  - Major communications from regulatory bodies
  - Trade organizations
  - Network with other organizations
  - OIG work plan
## Execute: The Power of Automation

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Execute: Electronic Interviews

Administrator: Jack Bauer  |  Entity:

Department: Clinic  |  Category: Policies and Procedures  |  Code: b
Question #1 of 38  |  Question ID: 470

Is there a written policy and procedures informing staff of the correct process for accurate patient registration?

Assignments Home  |  Review Answers  |  ...

Yes  No  Not Applicable  Requires Review

Question Source  |  Upload Document  |  Edit Question

Last Review or Update: / /

Supporting Documents Currently Referenced on the Server - Check All that Apply

Enterprise Wide Documents: No Enterprise-wide Documents on file for this Question Set
Local Documents: No Entity based Documents on file for this Question Set

Add Comments (Optional):
# Execute: Electronic Scoreboards

## MediRegs Health System

### 1. MediRegs Hospital

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Managing Real Time Risk Amidst the Chaos

Happenings

You get told things every day that don't happen. It's printed in the press. The world thinks all these things happen. They never happened. Everyone's so eager to get the story before in fact the story's there that the world is constantly being fed Things that haven't happened. All I can tell you is, It hasn't happened. It's going to happen.

Department of Defense briefing Feb. 28, 2003
Assessing Real Time Risks Requires Tools

- Integrated end to end management of issues, events, incidents and matters.
Talking to Management About RA

- What is the progress of our assessments?
- What are we assessing and how?
- What are the business risk to our strategies, finances and organization?
- What are the compliance issues?
- What are our significant risks, scenarios or risk events?
- How significant are these risks and what is the impact?
- How should we manage these risks?
- How should we monitor these risks

Charts Sources: MediRegs and Chief Security Officers.com
Phase II – Enterprise Risk Assessment

• Management risk committee
  – Review compilation of risk data
  – High level validation of risk data
  – Communicate importance/support of facilitation sessions

• Facilitation sessions
  – Includes leaders from all levels and operating units
  – Group leaders by area of specialty or have all evaluate each risk
  – Talk through risks with dialogue so all understand each risk
  – Educate leaders on risk
  – Leaders score risks
Phase II – Enterprise Risk Assessment

• Scoring Risk
  – Can weight each category or treat equally
  – Create scoring criteria and scale (1 – 5)
  – Define criteria example
    • Degree of regulation and compliance
    • Growth and profitability
    • Non-standardized systems, and processes
    • Technology changes
    • Size of business unit
    • Controls, policies and procedures
    • Training
    • Management/employee turnover
    • Management estimates
    • New business objectives and strategies
    • Acquisitions and potential divestitures
Phase II – Enterprise Risk Assessment

• Rating and definition example for Degree of Regulation and Compliance criteria
  – The level of regulatory impact on services provided or business unit
    1. Tasks performed are relatively simple and technical in nature with no special regulatory concerns over the activities of the unit.
    2. Tasks performed are of moderate difficulty and only limited activity in this unit is an area of regulatory concern.
    3. Tasks performed are of moderate difficulty and some of the activities in this unit are areas of regulatory concern.
    4. Tasks performed are somewhat complex and a significant amount of this unit’s activities are of regulatory concern.
    5. Tasks performed are complex and are of high regulatory concern. Errors may result in damage to the brand image and/or civil penalties.
Phase II – Enterprise Risk Assessment

- Compile results from facilitated sessions with leaders
- Review and validate results from facilitated sessions with management risk committee
- Bring leaders together to review scored results
  - Determine which risks are a priority
  - Assign accountability
  - Educate on how to develop a mitigation plan
  - Provide mitigation plan tools that meet organization needs. Include:
    - Tactics
    - Measurement criteria
    - Monitoring activities
  - Set timeline for completion of plans
Example: Identified Risks

- Revenue Cycle
- Privacy & Security
- Billing Compliance
- Grants and Research
- Accounts Payable
- Competition
- Governance (Committee Roles & Responsibilities)
- Business Continuity Planning
- Credit Balances
- Wireless Network
- Computer Operations
- Human Resources Operations
- Investments
- Cash Controls
- Mental Health Access
- Core Measures
Example: Heat Map

[Diagram showing a heat map with categories such as Competition, Privacy & Security, Billing Compliance, Revenue Cycle, Research And Grants, Investments, Accounts Payable, Core Measures, Cash Controls, BCP, Governance, HR Operations, Mental Health Access, Credit Balances, Wireless Network, Computer Operations, and their placement along the axes of occurrence likelihood and magnitude of impact.]
## Example: ERM Components (Point System)

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<th>Risk Area/Project Name</th>
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<td>Business Continuity Plan</td>
<td>Operational</td>
<td>560</td>
</tr>
<tr>
<td>Mental Health Access</td>
<td>Operational</td>
<td>560</td>
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<tr>
<td>Core Measures</td>
<td>Operational</td>
<td>525</td>
</tr>
<tr>
<td>Cash Controls</td>
<td>Financial</td>
<td>525</td>
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<tr>
<td>Human Resources Operations</td>
<td>Human</td>
<td>520</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>Financial</td>
<td>495</td>
</tr>
<tr>
<td>Governance (Committee Charters)</td>
<td>Governance</td>
<td>475</td>
</tr>
<tr>
<td>Credit Balances</td>
<td>Regulatory</td>
<td>465</td>
</tr>
<tr>
<td>Computer Operations</td>
<td>Technology</td>
<td>445</td>
</tr>
<tr>
<td>Wireless Network</td>
<td>Technology</td>
<td>445</td>
</tr>
</tbody>
</table>
Example: Work Plans

**Operation’s Risk Mitigation Plan**
- Revenue Cycle
- Privacy & Security
- Billing Compliance
- Grants and Research
- Accounts Payable
- Competition
- Governance
- BCP
- Credit Balances
- Human Resources
- Investments
- Cash Controls
- Mental Health Access
- Core Measures

**Operation’s Assumes Risk**
- Wireless Network
- Computer Operations

**Compliance Work Plan**
- Privacy and Security
- Billing Compliance
- Grants and Research
- Credit Balances
- Mental Health Access

**Internal Audit Work Plan**
- Revenue Cycle
- Billing Compliance
- Grants and Research
- Business Continuity Plan
- Investments
- Cash Controls
Example: Operation’s Risk Mitigation Plan

Privacy and Security
Employee access to electronic medical record

- **Accountability:**
  - No clear single owner but a number of departments have ownership. Need to designate a lead to be effective (CIO)

- **Stakeholders:**
  - Chief Information Officer, Chief Clinical Officer, Health Information, Human Resources, Compliance Officer, Legal, Patients, Others …

- **Mitigation Strategies:**
  - Policy and Procedures, Education and Training, Communication and Awareness, Discipline and Enforcement

- **Timeline:**
  - Prioritize with other initiatives

- **Metrics:**
  - Monitor and Evaluate

Grants and Research
Approval process for sponsored research projects

- **Accountability:**
  - Director of Research Administration or Chief Clinical Officer

- **Stakeholders:**
  - Chief Clinical Officer, Hospital Presidents, Institutional Review Board, Chief Financial Officer, Billing Office, Registration Lead, Compliance Officer, Research Investigators, Vendor Sponsor

- **Mitigation Strategies:**
  - Policy and Procedures, Education and Training, Communication and Awareness, Discipline and Enforcement

- **Timeline:**
  - Prioritize with other initiatives

- **Metrics:**
  - Monitor and Evaluate
Example: Compliance Work Plan

Billing Compliance
Charging for Observation Services

- **Structure:** (Program Infrastructure):
  - Policy Development
  - Education and Training
  - Oversight and Reporting Mechanisms

- **Process:** (How address risk):
  - Risk Assessment
  - Response and Prevention
    - Internal Investigation
    - Corrective Action Plan
    - Enforcement and Discipline

- **Outcome:** (Measure/Report Actual Results)
  - Auditing and Monitoring Effort
  - Report to Appropriate Level (Operation Leaders vs. Senior Leadership vs. Board Leadership)

Credit Balances
Timely Refunding of Credit Balances

- **Structure:** (Program Infrastructure):
  - Policy Development
  - Education and Training
  - Oversight and Reporting Mechanisms

- **Process:** (How address risk):
  - Risk Assessment
  - Response and Prevention
    - Internal Investigation
    - Corrective Action Plan
    - Enforcement and Discipline

- **Outcome:** (Measure/Report Actual Results)
  - Auditing and Monitoring Effort
  - Report to Appropriate Level (Operation Leaders vs. Senior Leadership vs. Board Leadership)
## Example: Internal Audit Work Plan

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project Description</th>
<th>Risk Domain</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Office Review</td>
<td>Integrated review of the processes and tools used for billing accounts receivable.</td>
<td>Financial</td>
<td>150</td>
</tr>
<tr>
<td>Health Information Management Review</td>
<td>Integrated review of the processes and tools related to outpatient and inpatient coding.</td>
<td>Operational</td>
<td>150</td>
</tr>
<tr>
<td>Inpatient &amp; Outpatient Billing Compliance Review</td>
<td>Review of outpatient claims to determine compliance with payer requirements.</td>
<td>Regulatory</td>
<td>350</td>
</tr>
<tr>
<td>Grants and Research Review</td>
<td>Review of processes and related internal controls associated with grant funds and research projects.</td>
<td>Regulatory</td>
<td>150</td>
</tr>
<tr>
<td>Accounts Payable Review</td>
<td>Integrated review of the processes and tools used for accounts payable function.</td>
<td>Financial</td>
<td>100</td>
</tr>
<tr>
<td>Business Continuity Planning Review</td>
<td>Review of the outpatient business continuity plans for Tier I applications including data backup and storage.</td>
<td>Operational</td>
<td>200</td>
</tr>
<tr>
<td>Investment Review</td>
<td>Review of the investment management processes and related internal controls.</td>
<td>Financial</td>
<td>150</td>
</tr>
<tr>
<td>Cash Controls</td>
<td>Review of the internal controls associated with cash collections at point of service locations, business office and treasury department.</td>
<td>Financial</td>
<td>200</td>
</tr>
</tbody>
</table>
Phase III – Enterprise Risk Management Implementation

- Accountable managers monitor plans using quality improvement cycle of PSDA
- Accountable managers report quarterly to ERM facilitator
- ERM facilitator reports to the management risk committee on monitoring activities
- Management risk committee reports ERM activities to Board or Board Committee
Phase III – Enterprise Risk Management Implementation

• Implementation and Risk Management Process
  – Responsibility of the Accountable Manager
    • Periodically scan the assigned risk area, with participation from other stakeholders
    • Ensure adequate monitoring of the risk and that risk mitigation activities are in place
    • Report key elements of risk mitigation plan, changes in risk level and outcome monitoring to senior leadership

  – Role of Internal Audit Function
    • Internal audit does not manage risk, but is an independent validation mechanism for both the effectiveness of controls and the accuracy of management’s assessment of controls
    • Measures validity of management’s assertion of risk reduction due to mitigation activities
    • Consults on best-practice approach to further reduce risk
Phase III – Enterprise Risk Management Implementation

• Implementation and Risk Management Process
  – Reconciliation with other Processes
    • Risk assessment and mitigation plans developed should be considered as inputs to related activities
    • Where possible allow existing processes (e.g. billing compliance program) to serve as risk mitigation activity for certain mature risk areas
  – Period Review and Updating of Risk Matrix
    • Senior leadership should review annually to identify new risk areas, assess risk levels and determine if appropriate risk owners have been identified
    • Annual review of matrix, along with mitigation plan for high risk areas should be presented at the Board level for review and comment.
    • ERM management deficiencies should be reported upstream, with serious matters reported to senior leadership and the Board.
Phase III – Enterprise Risk Management Implementation

• Information Flows within the ERM Process
  – Risk Response
    • Management determines how it will respond
      – Risk avoidance, reduction, sharing or acceptance
      – Likelihood vs. Impact
      – Cost vs. Benefit
    • Opportunities Available
      – Entity wide approach
      – Is overall residual risk within the entity’s risk appetite
  – Control Activities
    • Policies and procedures that ensure risk responses carried out
    • Occur at all levels and in all functions
Phase III – Enterprise Risk Management Implementation

• Information Flows within the ERM Process
  – Information and Communication
    • Identified, captured, and communicated in a form that helps ensure management risks are carried out
    • Effective communication flows down, across and up the organization
    • Senior leadership communicates to all personnel that ERM is a priority and must be taken seriously
    • Internal stakeholders - employees must understand their role and how the ERM activities relate to the overall strategy of the entity.
    • External stakeholders – customers, vendors, regulators, etc.
Phase III – Enterprise Risk Management Implementation

- Information Flows within the ERM Process
  - Monitoring
    - ERM must be monitored – assessing the presence and functions of its components over time
    - Accomplished through ongoing monitoring activities, separate evaluations or a combination of the two
    - Ongoing monitoring occurs in the normal course of business
    - Scope and frequency depends on the level of risk
    - Results reported upstream
Rules Of The Road

- BOTTOM UP, BOTTOM UP, BOTTOM UP
- Keep it practical but exhaustive
- Don’t be idealistic. Look at what actually goes on.
- Identify the known-knowns, unknown knowns and unknown unknowns.
- Put it in business terms
Keys to Success

• Don’t name 100 potential risks & ask organization to assess and mitigate everything under the sun.
• ERM leader is a facilitator and advisor, the business must take ownership and accountability for mitigating risk.
• Create awareness & knowledge among business owners.
• Include a diverse group of leaders in process.
Conclusion

• Leading Providers…..
  – Understand the risks most pertinent to their organization
  – Manage the risks in an integrated fashion
  – Prioritize risk management efforts around:
    • Risks having the biggest potential impact and,
    • Are most likely to occur
Conclusion

Questions

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