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How and when should	
How and when should	
you leverage internal audit?	
audit	
March 28, 2017	
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Agenda	-
Internal Audit foundation	
3 lines of defense	
Trends in consultative & value enhancement work	
Why you should care	
Key takeaways	
PwC 2	
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What are your initial thoughts on internal audit?	
PwC 3	
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What are your initial thoughts on internal audit?	
Boring! Adversaries!	
Who? Strategic Partner?	
Strategie i artifer:	
Blocking and tackling	
Gotcha! Financials	
Sleepy time!	
PWC 4	
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Internal audit overview	
What is internal audit? "Internal auditing is an independent, objective assurance and	
consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of	
risk management, control, and governance processes."  -The Foundation for the IIA Standards	
Define Assess Analyze Recommend  - Align objective of Conduct planning - Establish capability - Develop feasible	
review with meetings of the process recommendations management goals Prepare data Identify risk to to reach goals Define scope of collection plan meeting objectives Aggregate root review Collect & goals; to causes addressed	
Prepare planning preliminary data organization by same     Scope memo	
budget with management 5	
	]
Wait! Before we go on	
isn't internal audit the same as compliance or quality	
assurance?	
Great question!	
What do you think?	
Are they the same? How should they differ?	
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Ris	k Management Framev	vork		
Business Management	Compliance and Quality Assurance	Internal Audit		
First line of defense	Second line of defense	Third line of defense		
Not ind	ependent	Independent	ors	9
Peports on organization's performance or Owns day to day control activities Designs & operates controls Considers costs & benefits Re-evaluates processes & controls Control	<ul> <li>Mönitors, consolidates &amp; reports on control performance - Collaborates with management to execute controls &amp; set best practices</li> <li>Varifies risk objectives are being met</li> <li>Mönitors remediation elforts &amp; provide inputs as needed</li> <li>Proactively responds to changing business needs</li> <li>Typically focuses on regulatory requirements</li> </ul>	Periodically verifies the completeness and accuracy of management reported activities     Provides assurance controls are designed & operating effectively to mitigate risks     Reports on Taud risk     Escalates non-performance to governing bodies enmediation plans mitigate identified risks mitigate identified risks mitigate identified risks or institutional operational requirements.	External Auditors	Beaulatory Bodies

Internal audit vis-à-vis compliance		
	Internal Audit	Compliance
Definition	Independent, objective assurance and consulting activity designed to add value and improve operations	Preserve corporate integrity and adherence to a code o organization ethics and ensure compliance with regulatory matters
Purpose	independent appraisals of governance, risk and control review reliability and integrity of financial information     safeguarding of assets     review consistency with operational goals and objectives     recommend operating improvements	encourage the use of internal controls to monitor adherence to applicable regulations     effect change as necessary to achieve regulatory compliance     create organizational compliance policy and procedure, compliance training     protect and secure PHI     implement HIPAR Privacy and Security standards
Authority	Audit Committee Charter Internal Audit Charter	Compliance Program Compliance Committee Charter
Management Relationship	Independent with no operational responsibilities; reports directly to Board or Audit Committee; does not own policies	Operational responsibility for administering the compliance program; reports to management; may create and / or own policies
Expertise	Primarily with internal controls	Primarily in regulatory matters
Internal Controls	Confirm internal controls are designed and operating effectively	Understand, help design and encourage the use of internal controls

# State of the internal audit profession

- Shifting from retrospective  $\Rightarrow$  prospective
- Innovation
- Moving from value protection  $\rightarrow$  value enhancement
- Alignment with business objectives & strategic initiatives
- Collaboration with second line of defenses
- Right mix of talent and business acumen
- Effective & timely communication
- · Follow-up and monitoring process

PurC

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# Internal audit value enhancement opportunities Internal audit can provide a wide range of value-added services ranging from traditional financial assurance to organizational-wide risk management / governance models. Specifically, management is now looking for a partner to advise during critical and strategic initiatives. Range of Internal Audit Activities Enterprise fisk management in risk assessment bad consultance programs (Proactive involvement in risk assessment bad consultance) (Consulting of Consulting of

nternal audit can help navigate the changing echnology landscape		
Internal Audit functions need to evaluate business identify risks and opportunities		
Staffing & Talent Management  - Allocating right resources towards technology addit function  Strategic co-sourcing to augment specialized technical skills	Change Agents  Agents  Acting as change agents to drive innovation and change in Internal Audit and business  Differentiating through skills, focus area, and agility to drive value and impact	
technical skills  Strategic Partnerships  Collaborating with information technology to help manage risk and help solve and help solve to help manage risk and help solve to help		
from being an "auditor" to "advisor"	dynamic risk assessment	
Managing Increasing Expectations Helping companies address risks and identify opportunities in cybersecurity and emerging technologies Keeping Boards and Audit Committees informed	rechnical Scills  Leveraging technology Skills  Leveraging technology spart of delivering and it engagements  Building, training, and relating technical capabilities to perform strategy, quality, and value-based technology audits	

With the changing organizational risk landscape facing organizations, Internal Audit must focus the right level of testing at the optimal time.	The approach should tailor the
Internal Audit analytics methodology should use flexible, tailored technology throughout the audit lifecycle to highlight, measure, and react to key risk areas, resulting in the right audit coverage, depth and breadth.	use of analytics to your audit process and audit mandate to provide you with:  Enhanced capabilities
Analytics-Enabled Internal Audit Methodology	and re-usable analytics across risk areas
	Increased insight to transaction processing and compliance metrics  Consistent use of analytics to maximize coverage where you need it
Data Enabled Analytics Drivenntelligent Sampling	Sample Toolkit and Accelerators
Risk Assessments Audit Scoping and Modeling  Analytics Governance and Methodology	Analytics Libraries ERP and System Expertise Industry Risk and Relevance

	verage
Internal Audit Engagements	Compliance Projects
Value Based Program Implementation	CMS Admission Criteria- Inpatient Status vs. Observation/ Outpatient
Ambulatory Expansion Risk Management Assessment	Admission Orders (Inpatient/ Observation)
Clinical Research Billing Consultation	Evaluation and Management Services - Facility Level Coding Accuracy
Entity Level Controls Readiness Assessment	Anesthesia services - Payments for personally performed services
Medical Device Security Assessment	HIPAA / Privacy Program
Epic Billing Reimbursement Assessment	Attending Physician Billing Compliance
Pharmacy Operations Management	Hospital Same - Day Discharges and Readmissions
Emergency Preparedness and BCM Review	Provider Based Billing Status - Medicare
340B Data Analytics	Manufacturer Recall Credits

Why should I care?	
How does this impact me?	
PwC	1

### Audit findings - material impacts

Is your internal audit function helping you to manage these risks? How comfortable are you with your processes and internal controls?

Institution	Amount	Reason
University of Minnesota	\$32M	Misuse
NYUMC	\$15.5M	Inflated research costs
Tenet Healthcare	\$514M	False Claims Act (kickbacks)
UCLA	\$8.5M	Conflict of interest disclosure
Mayo	\$6.5M	Mischarging grants
Advocate	\$5.55M	Laptop data breach / HIPAA violation
Northwestern	\$5M	Effort
Cardinal Health	\$44M	Memorandum compliance due diligence
Cornell	\$4.4M	Clinical research
Harvard/BIDMC	\$3.25M	Costing
Medtronic	\$17M	Price fixing in China
Rideout Health	\$2.4M	Drug records mismanagement
NY Presbyterian	\$2.2M	Patient consent / HIPAA violation
MedStar Hospitals	Bitcoin	Ransomware attack / held data hostage
UCLA	TBD / \$865K	Data breaches
Trinity Health	\$75M	Pension mismanagement

### Internal audit transformation - areas of focus

Ensure you obtain the results of all reports issued by other auditors and discuss with auditors and consider any implications to the current year audits. For example:

- External audits of financial statements
- Government / regulatory audits (HRSA, JCAHO, OIG, etc.)
- Effort reports
- Second line of defense findings (compliance, quality assurance, etc.)

Understanding the above plus management's current strategic initiatives, current internal audit functions should be focusing on adding value in...

- Mergers & acquisitions
- Value based programs Clinical integrated networks
- Enterprise risk management Shared service centers / central business offices
- Quality measures improvement Cost allocations / funds flow
- Cybersecurity
- Research / clinical trials

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# Key takeaways

- · Internal audit does more than protect the base
- Independence requirements do not impede internal audit from providing consultative services and value enhancement
- Leverage your internal audit as another resource
- Include internal audit as another work stream / department
- Ask your Board and Audit Committee if they are receiving the value expected from internal audit

Questions	
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