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WHERE WAS ERM?

HCCA 25th Annual Compliance Institute

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Internal Audit, Risk, Business & Technology Consulting

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SPEAKERS

Rebecca Nilson

Director, Nashville
Enterprise Risk Management & Key Emerging Risks

Rebecca is a Director in Protiviti's Nashville office with over twenty years of experience in internal audit, Enterprise Risk Management, Sarbanes Oxley, financial analysis and operational assessment, specifically in the healthcare and financial services industries. Rebecca is also Protiviti's Healthcare lead for Enterprise Risk Management and 1135 waivers. She has experience in department program management, compliance reviews, single audits, fraud investigations, risk assessment, construction auditing, and operational reviews. Prior to entering consulting, Rebecca served in an internal audit leadership position with an academic medical center, healthcare provider specializing in physical rehabilitation and research, as well as, a publicly traded real estate investment trust, all in the Chicago area. She has served as a chapter leader for the Institute of Internal Auditors and has been a guest lecturer for auditing, risk assessment and Enterprise Risk Management at Northwestern University. Rebecca can be reached via email at rebecca.nilson@protiviti.com or via phone at 1.773.320.0833

Darrell Sandeen

Director, Minneapolis
Enterprise Risk Management & Key Emerging Risks

Darrell Sandeen is a highly accomplished Senior Executive, C-Suite Officer, Consultant, and Board Member with over 25 years of success in healthcare, hospital, medical, pharma, medical device, capital markets, public accounting, professional services, and consulting. Leveraging extensive experience in financial risk management and strategic planning, he is an asset for a range of similar-sector companies looking for financial management, brand positioning, growth, and expansion. His broad areas of expertise include leadership; board/investor relations; financial analysis, strategy, planning, models, forecasts, budgets, controls, audits, accounting, and reporting; enterprise risk management; operational excellence; performance management; process improvement; change management; regulatory/legal compliance; FDA; FEMA; Medicare; HIPAA; healthcare IT; program/project management; and team building. Darrell spent the last twenty years at Mayo Clinic as an executive. Darrell can be reached via email at darrell.sandeen@protiviti.com or via phone at 1.952.432.2413

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AGENDA

5	Could Enterprise Risk Management (ERM) Have Identified COVID-19 As a Risk?
10	ERM Framework and How to Uncover Value
15	Implementing An Effective ERM Program Going Forward

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POLLING QUESTION #1

How would you rate your organization's ERM program effectiveness for COVID-19?

A	Not even on the radar
B	Identified indirectly / softly
C	Had pandemic identified but no action plan
D	We NAILED IT!

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COULD ENTERPRISE RISK MANAGEMENT(ERM) HAVE IDENTIFIED COVID-19 AS A RISK?

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COULD ERM HAVE IDENTIFIED COVID-19 AS A RISK?

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COULD ERM HAVE IDENTIFIED COVID-19 AS A RISK?

Healthcare organizations often capture pandemics in the operational risk category - Emergency Management (EM)

In retrospect there are several challenges with inclusion in this category:

- EM is often not linked to any strategic risks
- EM is often focused on short duration disasters with mass causalities – with rapid response and recovery
- EM generally has plans, conducts drills and is viewed as an effective risk mitigator

Within EM, or more broadly, the probability of occurrence would have been scored very low

The estimated financial impact would have probably been under-estimated due to lack of relevant experience, making scenario modeling difficult and highly subjective

Might have been picked up in a "Black Swan" exercise, however those details often are not covered at the Board level

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COULD ERM HAVE IDENTIFIED COVID-19 AS A RISK?

Short answer is – **POTENTIALLY**

We should consider the role of probability assignment featured in many quantitative modeling approaches – where does it work well and when does it struggle?

How does traditional ERM identify and assess multiple dependency factors?

- Geographic supply chain concentrations – key materials/supplies
- Sole or heavy primary suppliers – very limited secondary
- Lowest bid/price and assume quality
- JIT delivery and associated low inventory models even for key items (based on average turns with limited scaling or industry capacity/demand analysis)
- Where does risk to staff factor into ERM
- Absent substantial government funding many organizations would have been on or over the cusp of severe financial distress
- Should ERM get a pass for global pandemics?

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ERM FRAMEWORK AND HOW TO UNCOVER VALUE

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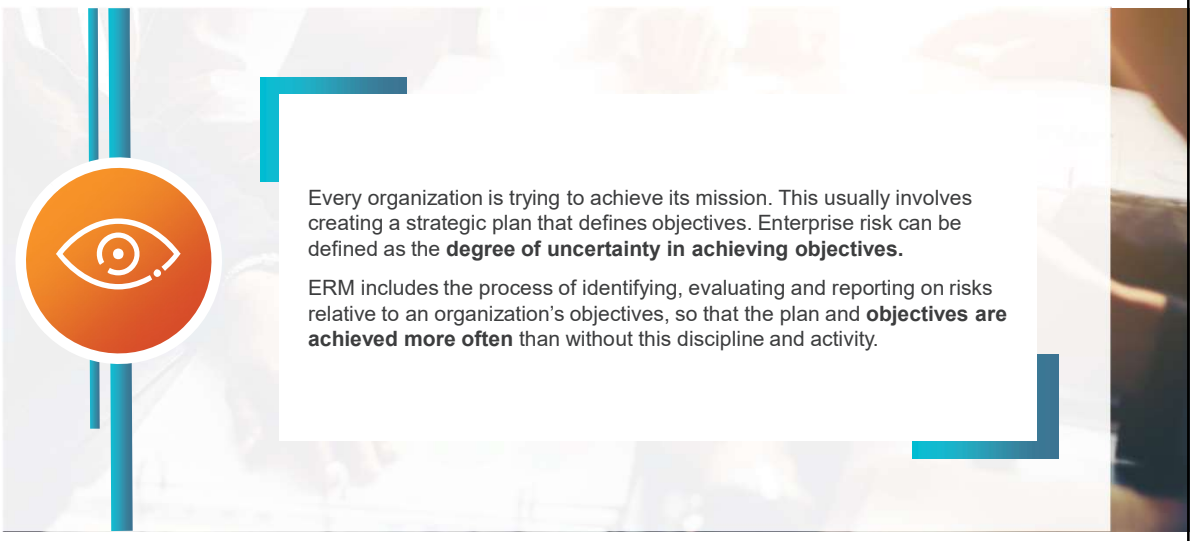
ERM VISION



Every organization is trying to achieve its mission. This usually involves creating a strategic plan that defines objectives. Enterprise risk can be defined as the **degree of uncertainty in achieving objectives.**

ERM includes the process of identifying, evaluating and reporting on risks relative to an organization's objectives, so that the plan and **objectives are achieved more often** than without this discipline and activity.

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A FLEXIBLE AND ENGAGING APPROACH TO ERM

Through experience, we know:	Common criticisms of ERM:
ERM does not need to be complicated or over-engineered to be successful.	Its processes and outputs are not engaging or valuable to management.
There is no one-size-fits-all approach to ERM.	ERM can become a siloed, administrative process.

Our recommended ERM framework is designed to increase management buy-in and engagement in two main ways:

1. Maintaining a direct link between the ERM program and business performance
2. Integrating the risk assessment, monitoring and reporting processes into existing management processes

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DEFINING THE ERM VALUE PROPOSITION

Having a clear view of your ERM program's value proposition is key to its success. Below, are example value propositions ranging from the lowest value (8) to the highest value (1).

Your ERM value proposition should be discussed with Executive Management, to encourage buy-in and a strong tone-at-the-top.

Although number 1 would be considered best-in-class, targeting that level of ERM maturity may not be appropriate for every organization.

Once defined, the ERM program should be built to align with the value proposition.

HIGH

LOW

1	Leverage time advantage in pursuing emerging market opportunities and risks
2	Inform/challenge business strategy
3	Enable risk-informed decision-making
4	Enhance the risk culture of the organization
5	Build a shared understanding of risks
6	Assure the board that risks are being managed
7	Identify 'top risks' to the enterprise
8	To check the box that we have an ERM program

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SCOPE AND DEPTH OF AN 'ERM PROGRAM'

Strategic Risks	Operational Risks	Financial Risks	Compliance Risks	Macro Risks
Risks related to the strategic direction and operating model of the organization.	Risks related to the effectiveness of business operations.	Risks related to the financial stability of the organization.	Risks related to meeting the regulatory obligations of the organization.	Risks related events or conditions that impact the economy and / or the entire industry.

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POLLING QUESTION #2

How engaged is the Compliance Department in the execution of the Enterprise Risk Management program?

- A. The Compliance Department runs/facilitates the ERM program
- B. The Compliance Department is on the ERM Steering Committee
- C. The Compliance Department participates in the ERM program
- D. HUH? ERM Program?

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IMPLEMENTING AN EFFECTIVE ERM PROGRAM GOING FORWARD

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ERM FRAMEWORK COMPONENTS

Framework Overview

- Provides a **structure** to support ERM activities
- Provides a **common methodology** to identify potential events that could impact business performance
- Circular framework demonstrates **dynamic flow** of activities
- Depicts ERM as **continuous process** and not a project
- **Culture** is at the heart of the model

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HEALTHCARE INDUSTRY – TOP 10 RISKS

Protiviti and North Carolina State University's ERM Initiative surveyed Board members and C-suite executives regarding the impact of key macroeconomic, strategic and operational risks.

2021 Ranking	Risk Description	2020 Ranking	2019 Ranking	2020 To 2021 Trend	2019 To 2020 Trend
1	**Government policies** surrounding public health practices, social distancing, return-to-work, crowd limits, and other pandemic-related regulations and protocols may significantly impact the performance of our business.	-	-	New Risk	New Risk
2	**Market conditions imposed by and in response to COVID-19**, including shifts in consumer behavior to digital channels, may continue to impact customer demand for our core products and services.	-	-	New Risk	New Risk
3	**Regulatory changes and scrutiny may heighten**, noticeably affecting the manner in which our products or services will be produced or delivered.	1	2	↓	↑
4	**The adoption of digital technologies** (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees.	13	-	↑	New Risk
5	Economic conditions in markets we currently serve, particularly related to **unemployment and government stimulus**, may significantly restrict growth opportunities for our organization.	15	20	↑	↑
6	Our organization may not be sufficiently prepared to **manage cyber threats** that have the potential to significantly disrupt core operations and/or damage our brand.	6	4	↓	↓
7	Ensuring **privacy/identity management and information security/system protection** may require significant resources for us.	3	1	↓	↓
8	**Uncertainty** surrounding the **viability of key suppliers**, scarcity of supply, or stable prices in the supply chain ecosystem may make it difficult to deliver our products or services at acceptable margins.	22	19	↑	↓
9	**Anticipated increases in labor costs** may affect our opportunity to meet profitability targets.	11	6	↑	↓
10	Our existing operations, legacy IT infrastructure, lack of digital IQ in the workforce and **insufficient embrace of digital thinking and capabilities** may not meet performance expectations related to quality, time to market, cost and innovation as well as our competitors, especially new competitors that are "born digital" with a hyper-scalable business model and low-cost base for their operations, or established competitors with superior operations.	5	3	↓	↓

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HEALTHCARE INDUSTRY – TOP 5 RISKS FOR 2030

Rank	Risk Category	Risk Description	2021 #
1	Macroeconomic	**The adoption of digital technologies** (e.g., artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill existing employees.	4
2	Strategic	**Regulatory changes and scrutiny may heighten**, noticeably affecting the manner in which our products or services will be produced or delivered.	3
3	Operational	**Ensuring privacy / identity management and information security / system protection** may require significant resources for us.	7
4	Strategic	**Rapid speed of disruptive innovations** enabled by new and emerging technologies (e.g., artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/or other market forces may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model.	16
5	Strategic	**Ease of entrance of new competitors** into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share.	17

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POLLING QUESTION #3

Post COVID, is your organization planning on re-evaluating your Enterprise Risk Management Program?

A. Yes

B. No

C. Already in the works

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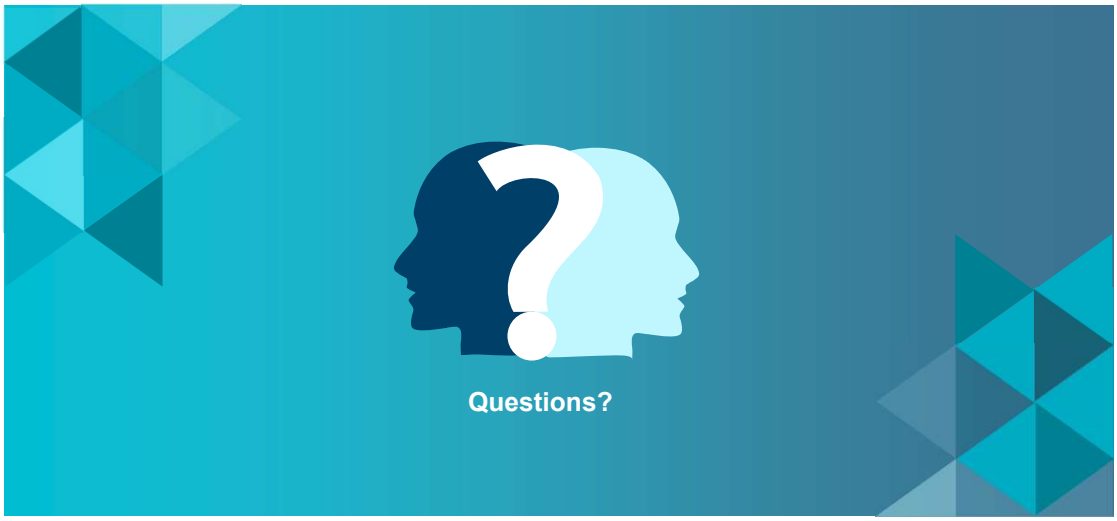
Q & A SESSION



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