

Deloitte.

**Health Care Compliance Association (HCCA)
Audit & Compliance Committee Conference**

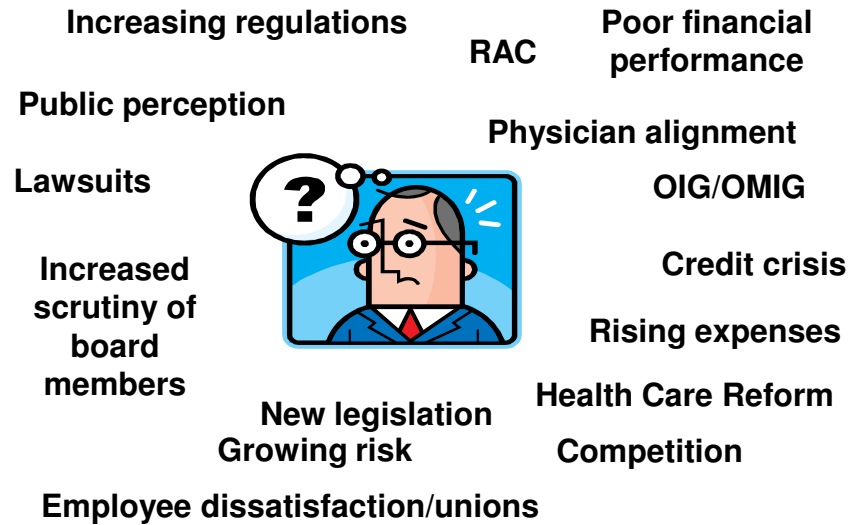
Internal Audit and the Audit Committee

May 21, 2010

Discussion topics

- Tactics for facilitating effective communication between internal audit and the audit committee
- Hear about the type and frequency of information audit committee members should be receiving
- Leading practices employed by internal audit and audit committees to speak a common "risk" language, monitor risk, and identify priorities

The plight of board members



2

Copyright © 2010 Deloitte Development LLC. All rights reserved.

What we are hearing from audit committees

- Times are changing
- Overwhelmed by heightened scrutiny from stakeholders, regulators, etc.
- Concerned with the implications of the credit crisis and economic downturn
- Concerned with the effects of Health Care Reform
- Dissatisfied with process to identify risks
- Unsure of their role in the oversight of enterprise risk management (ERM)

“The Audit Committee does not have a clear picture of the entirety of risks associated with the organization’s operations, nor in some cases what its responsibilities are vis-à-vis the Board and other Board Committees for oversight of risk areas”

3

Copyright © 2010 Deloitte Development LLC. All rights reserved.

The changing role of the audit committee

Key challenges for audit committees previously



- The integrity of the company's financial statements
- The company's compliance with legal and regulatory requirements
- The independent auditor's qualifications and independence
- The performance of the company's independent auditor and internal-audit function.

Key challenges for audit committees in the current environment



- Implications of credit crisis and economic downturn
- Attention to credit and liquidity issues
- Oversight of enterprise risk management
- Heightened scrutiny from shareholders, regulators, media, etc.
- Crisis preparedness

4

Copyright © 2010 Deloitte Development LLC. All rights reserved.

Communicating with audit committees — common pitfalls

- Too much information
- Too little information
- Unclear information
- Lack of prioritization
- Reactive approach (vs. proactive)
- Failure to speak the same language

5

Copyright © 2010 Deloitte Development LLC. All rights reserved.

First, let's talk about risk....

How do you define risk?

Formal definition:

Risk is "any event that can adversely affect the achievement of your objectives."

Risk intelligent definition:

Risk is the potential for loss or harm — or the diminished opportunity for gain — that can adversely affect the achievement of an organization's objectives.

Simple definition:

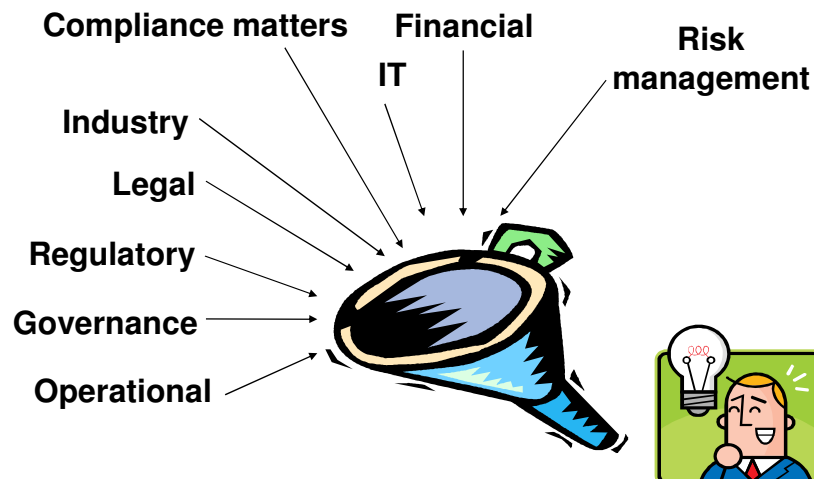
Risk is the possibility of something bad happening or something good not happening.

In a risk intelligent enterprise, a common definition of risk — one that addresses both value preservation and value creation, is used consistently between management, the Board and throughout the organization.

6

Copyright © 2010 Deloitte Development LLC. All rights reserved.

"What really matters" — Funnel it



Perspective + Knowledge + Risk Appetite + Judgment = Credibility

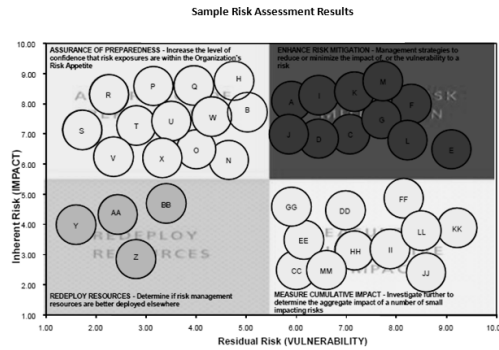
7

Copyright © 2010 Deloitte Development LLC. All rights reserved.

How and what to report to the audit committee

Enterprise-wide risk assessment

MARCI Chart (Heat Map)



“What are our risks...”

Risk Glossary

RISK TITLE	RISK RANKING	REF
Strategic		
PHYSICIAN ALIGNMENT		F
CONTINUING CARE MODEL		U
JOINT VENTURES		H
STRATEGIC PLANNING		U
CULTURE OF ACCOUNTABILITY		CC
IMPLEMENTING CHANGE		GG
MARKETING		JJ
Compliance/Regulatory/Legal		
QUALITY OF CARE / PATIENT SAFETY		G
COMPLIANCE - JOINT COMMISSION		C
COMPLIANCE PROGRAM EFFECTIVENESS		P
PHYSICIAN ARRANGEMENTS		S
RAC READINESS / PREPAREDNESS		T
HIPAA PRIVACY		Z
HIPAA SECURITY		FF
PHYSICIAN CREDENTIALING		LL
CONTRACT MANAGEMENT		BB
Delivering Patient Care		
BEHAVIORAL HEALTH		K
ED PATIENT THROUGHPUT		H
PERFORMANCE IMPROVEMENT		KK

How and what to report to the audit committee

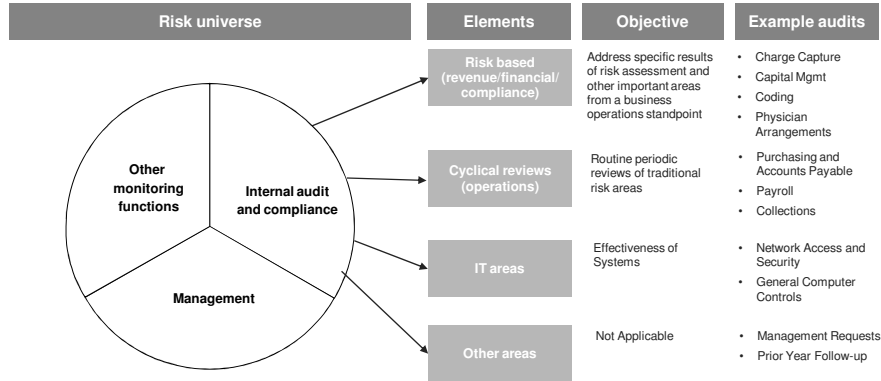
The risk and audit universe

WHAT?	WHY?	WHO?	HOW?	WHEN?								
Process / Subprocess	Residual Risk	Department Managing Risk	Addressed by IA/ Compliance	Addressed by other Dept or Resource	Frequency of review	Status	Planned IA/Compliance Projects			Planned Audits other depts/resources		
	(e.g. High, Medium, Low)	(e.g. Finance, Legal, HR)			(e.g. annual)	(e.g. open)	CY'09	CY'10	CY'11	CY'09	CY'10	CY'11
1. Compliance/Regulatory/Legal												
Compliance Program Effectiveness												
Exclusion/Sanction Checks												
Quality of Care												
OIG Annual Work Plan												
Conflict of Interest												
JCAHO												
2. Finance/Accounting/Reimbursement												
Financial Reporting / Disclosure												
Non-standard Journal Entries												
Account Reconciliations												
Accounting Estimates												
3. Information Services												
General Computer Controls												
Electronic Medical Records												
Change Management												
Access Controls												
4. Revenue Cycle (Front End)												
Registration/Admitting												
Case Management												
Documentation/Charge Capture												

...and what are we doing about them?”

Translating risk assessment results into an integrated audit plan

Enterprise wide risk assessments identify a broad range of risks applicable to the organization. Not all the risks, however, will be appropriate for either compliance or internal audit focus. Conversely, there will be areas of compliance and internal audit focus which are not identified during the risk assessment process. In addition, not all “auditable” risks can be addressed in one year.



How and what to report to the audit committee

The audit plan

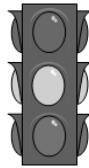
Audit	Description	Source	Estimated hours	Resource
HIPAA privacy	Review of instituted HIPAA compliance policies, procedures, forms and initiatives and assessment organizational compliance with HIPAA statute with regulations.	Risk assessment	120	Co-sourced compliance
Physician arrangements	Review, documentation and analysis of the design of controls over physician arrangement management including review of arrangements sample for compliance and control operating effectiveness.	Risk assessment	180	Co-sourced compliance
Anti-kick back/stark laws	Review, documentation and analysis of the design of controls including policies and procedures to validate compliance with anti-kick back/stark law compliance with selected control testing for operating effectiveness.	Industry	160	Co-sourced compliance
Supply chain: Materials and services procurement	Review, documentation and analysis of the controls over materials and services procurement with selected control testing for operating effectiveness.	Risk assessment	250	Internal
Medical supplies inventory management	Review, documentation and analysis of the controls over medical supplies inventory management with selected control testing for operating effectiveness.	Industry	140	Internal
Payroll processing	Review, documentation and analysis of the controls over payroll processing with selected control testing for operating effectiveness.	Industry	120	Internal
Construction	Review, documentation and analysis of the design of controls over construction management with selected control testing for operating effectiveness (e.g. change orders, applications for payment, bids).	Risk assessment	200	Internal
Asset management	Review, documentation and analysis of the controls over asset management with selected control testing for operating effectiveness.	Risk assessment	200	Internal

How and what to report to the audit committee (cont.)

Internal audit reports

Executive summary — should include relevant background information, overall summary of findings, audit history and should answer the question, “Why did we conduct this audit?”

Observation rating system — Assigning a rating to each of the observations in an internal audit report assists management and the audit committee with gaining a better understanding of “what is really important”. An effective scale often takes the form of “high, medium, low”.



Red Light - A significant weakness in internal controls or business processes that requires immediate correction

Yellow Light - A weakness in internal controls or business process that requires correction

Green Light - An opportunity for business process or control improvement

- Management responses should include:
 - Detailed action plans to address observation/mitigate risk
 - Action plan owners/responsible parties
 - Due dates to allow more effective follow-up/facilitate discussion with the Audit Committee on progress to date.

How and what to report to the audit committee (cont.)

Management action item dashboard summary

Completed or Not Overdue
1-14 Days Overdue
15-29 Days Overdue
30+ Days Overdue

Location	Audit	IA/Reg	COSO Category				Business Importance Code			Completion Status			Contact	Overdue Test # & Action Item Notes	Auditor
			Operational Findings	Financial Findings	Compliance Findings	Total Findings	A	B	C	Items Completed	Items Not Yet Due	Items Overdue			
Hospital A	Controls Self-Assessment	IA	3	1	0	4	2	1	1	2	2	0	Name, Title		
	Security Policies and Procedures	IA	3	2	1	6	2	2	2	3	3	0	Name, Title		
	HIPAA Compliance	REG	0	0	2	2	1	0	1	0	1	1	Name, Title		
			6	3	3	12	5	3	4	5	6	1			
Hospital B	Billing & Collections	IA	3	0	0	3	1	1	1	1	0	2	Name, Title		
	Internal Control Documentation	IA	2	1	0	3	0	0	3	2	0	1	Name, Title		
			5	1	0	6	1	1	4	3	0	3			
Hospital C	Denial Processing	IA	9	0	0	9	3	3	3	0	9	0	Name, Title		
	Charge Capture	IA	0	4	2	6	1	4	1	4	2	0	Name, Title		
			9	4	2	15	4	7	4	4	11	0			
Hospital D	Development Clinic	IA	10	0	0	10	3	6	1	0	7	0	Name, Title		
	Employee Benefits	IA	1	0	0	1	0	1	0	0	1	0	Name, Title		
	Pharmacy - Drug Diversion	REG	3	0	0	3	2	1	0	3	0	0	Name, Title		
	Physician - EMTALA	REG	1	0	1	2	1	1	0	0	0	2	Name, Title		
			15	0	1	16	6	9	1	3	8	0			
Hospital E	Physician Master Database	REG	1	2	3	6	1	2	3	2	3	1	Name, Title		
	Contract Management	REG	0	0	1	1	0	1	0	0	1	0	Name, Title		
	Sales Compliance	REG	0	2	3	5	1	2	2	3	1	1	Name, Title		
	Charge Capture - Emergency	IA	0	4	1	5	1	2	2	3	2	0	Name, Title		
			1	8	8	17	3	7	7	8	7	2			
TOTAL			36	16	14	66	19	27	20	23	32	11			

Contact information

Kelly J. Sauders

Partner

Deloitte & Touche LLP

Office: +1 212 436 3180

Cell: +1 518 469 0890

Email: ksauders@deloitte.com

Appendix

Deloitte's risk intelligence whitepapers



The Deloitte center for health solutions

The Deloitte Center for Health Solutions (“the Center”) was formed to further research on and develop solutions to some of our nation’s most pressing health care and public health-related challenges. The Center is committed to providing thoughtful, innovative, practical, and implementable solutions to challenges facing the U.S. health care system. The Center brings together the public and private sectors to find common-ground solutions to shared problems. It develops innovative ideas and programs to make health care more efficient, more affordable, and more accessible.



Tommy G. Thompson, Independent Chairman, Deloitte Center for Health Solutions... the former Health and Human Services Secretary and four-term Governor of Wisconsin, is Independent Chairman of the Deloitte Center for Health Solutions. Secretary Thompson is building on his efforts as HHS Secretary and Governor to develop innovative solutions to the health care challenges facing American families, businesses, communities, states, and the nation as a whole. These efforts focus on improving the use of information technology in hospitals, clinics, and doctors offices; promoting healthier lifestyles; strengthening and modernizing Medicare and Medicaid; and expanding the use of medical diplomacy around the world.



Paul Keckley, Ph.D., Executive Director, Deloitte Center for Health Solutions... is Executive Director of the Deloitte Center for Health Solutions. In this role, Dr. Keckley provides strategic guidance on the development of Center research and thought leadership. Dr. Keckley brings to the Center 30 years of experience in academic medicine and the private sector. He is regarded as a primary expert in health care economics, health policy, and trend analysis. Dr. Keckley was previously the Executive Director of the Vanderbilt Center for Evidence-based Medicine (VCEBM), Associate Professor at Vanderbilt University School of Medicine, and an Associate Professor of Health Management at the Owen Graduate School of Business.



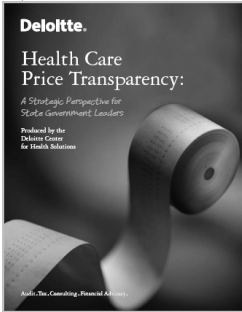
John Glaser, Ph.D., Senior Advisor, Deloitte Center for Health Solutions... is the Chief Information Officer of Partners HealthCare and one of the industry’s leading authorities on health technology and innovation. Dr. Glaser also serves as senior advisor to the Deloitte Center for Health Solutions, focusing on Care Delivery Innovation. He provides insight on a range of subjects, including transformation of care delivery through health information technology, large-scale health information technology project management, clinical information systems, and other areas relevant to health providers. He also advises on areas of convergence across providers, health plans and life sciences companies, such as regional connectivity efforts, personalized medicine, and telemedicine.

The Deloitte center for health solutions (cont.)

Deloitte.



Privacy and Data Protection
Healthcare Providers



Deloitte.

The Time Is Now
2009 Life Sciences & Health Care Security Study

A global perspective on cyber security, privacy and data protection in the life sciences and health care industry.

Deloitte Center for Health Solutions

2009 Survey of Health Care Consumers
Reveals an escalating need for health care reform; one in four Americans skip care when sick or injured

A new study provides a comprehensive view of health care consumerism

Nearly 40 percent of consumers have expressed discontent with the status quo, rating the U.S. health care system a D or an F, according to the results of the **2009 Survey of Health Care Consumers**, a new study produced by the Deloitte Center for Health Care Consumers, part of Deloitte LLP. The survey findings also revealed a quarter of consumers have skipped care when they were sick or injured and two in five of those consumers have done so because they simply could not afford it, were not covered by insurance or thought the costs were too high. Results from Deloitte's survey appeared in a **CNN.com** breaking news health care story, entitled "Sick skipping."

More than 4,000 Americans at Solutions, part of Deloitte LLP behaviors and unmet needs.

Deloitte.

Health Care Consumerism: Opportunities and Challenges for Health Plans



The Deloitte Center for Health Care Consumers

Deloitte.

These materials and the information contained herein are provided by Deloitte Touche Tohmatsu and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s). Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

These materials and the information contained therein are provided as is, and Deloitte Touche Tohmatsu makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing, Deloitte Touche Tohmatsu does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte Touche Tohmatsu expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security, and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Touche Tohmatsu will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.