Compliance Tool Kit for the Healthcare Internal Auditor

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Chief Compliance & Privacy Officer
Chief Audit Executive
Carolinas HealthCare System
Today’s Objective

Explore how to leverage the Compliance Department expertise to enhance your Internal Audit program.
Agenda

1. The Roles of Internal Audit and Compliance
2. Exploring the Concepts of Partnership and Integration
3. Partnering Approach (*Break out session*)
4. Integrating Approach
5. Risk Areas
6. The Role of the Board (*Break out session*)
7. Lessons from the Geese
Carolinas HealthCare System

- Largest health care system in the southeast
- Owns, manages or leases 29 hospitals
- Employs over 1,750 physicians and mid-level providers and more than 44,000 full-time employees in over 150 facilities throughout North and South Carolina
# The CHS Compliance Program

## Acute Care Facilities
- AnMed Health
- Anson Community Hospital
- Cannon Memorial Hospital
- Carolinas Rehabilitation
- Cleveland Regional Medical Center
- CMC
- CMC-Lincoln
- CMC-Mercy
- CMC-NorthEast
- CMC-Pineville
- CMC-Randolph
- CMC-Union
- CMC-University
- Columbus Regional Healthcare System
- Grace Hospital
- Kings Mountain Hospital
- Roper St. Francis Healthcare
- Scotland Memorial Hospital
- Stanly Regional Medical Center
- St. Luke’s Hospital
- Valdese Hospital
- Wallace Thomson Hospital
- Wilkes Regional Medical Center

## Long Term Care Facilities
- Cleveland Pines Nursing Center
- College Pines
- Crawley Memorial Hospital
- Ellen Sagar Nursing Home
- Grace Heights
- Grace Ridge
- Huntersville Oaks
- Jesse Helms Nursing Center
- Kings Mountain LTC Hospital
- Lillie Bennett Nursing Center
- Sardis Oaks
- Wilkes Regional SNF

## Other Sites Monitored
- Ambulatory Clinics
- College of Health Sciences
- Corp. Operations
- Medic
- Medical Education (100+ Faculty Physicians)
- Public Health
- Research

## CPN & NorthEast Physician Network
- Over 200 Practices
- 1600+ Physicians

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**The Corporate Compliance Program provides on-going auditing and monitoring in all areas of the Carolinas HealthCare System.**
Audit Activities Support Our Culture

<table>
<thead>
<tr>
<th>Compliance</th>
<th>Ethics</th>
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</thead>
<tbody>
<tr>
<td>Knowing the Rules</td>
<td>Understanding the Difference Between Right and Wrong</td>
</tr>
<tr>
<td>Following the Rules as they have been provided to you.</td>
<td>Choosing to do the Right Thing.</td>
</tr>
</tbody>
</table>

**Integrity**

*Consistently doing the right thing even when no one is looking.*
1. The Roles of Internal Audit and Compliance
“Compliance and audit serve two very important, but different roles in the risk management framework.”

<table>
<thead>
<tr>
<th>Audit</th>
<th>Compliance</th>
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<tbody>
<tr>
<td><strong>Monitors and evaluates the firm’s adequacy, implementation, and performance with respect to risk controls</strong> within all aspects of the firm’s businesses.</td>
<td>The system or process that is meant to <strong>reasonably ensure that a firm is complying with all applicable laws, rules, regulations, codes of conduct, firm policies, and standards of good practice.</strong></td>
</tr>
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</table>

**Source:** Gadziala, Mary Ann, “Speech by SEC Staff: Integrating Audit and Compliance Disciplines within the Risk Management Framework,” New York, NY, 11/30/05
Corporate Compliance Department

- Chief Compliance Officer
- Chief Privacy Officer
- Chief Audit Executive

- AVP Facility Compliance
- AVP Physician Compliance
- AVP Audit Services
- AVP Corporate Privacy
Audit Services Department

Structure

Chief Audit Executive

AVP, Audit Services

Regional Facilities
  - Director
  - 4 Auditors

Metro Facilities & Corporate Ops
  - Manager
  - 4 Auditors

Physician Practice
  - Director
  - 3 Auditors

Construction
  - Manager
  - 1 Auditor

Technology
  - Manager
  - 1 IS Auditor

Research
  - 1 Auditor

HIPAA Security
  - Manager
  - 1 Auditor
Role of Internal Auditing

The Audit Executive:

- Must be provided with adequate resources, appropriate authority, and direct access to the board
- Helps the board to understand government expectations and regulations in reporting
- Provides appropriate information for decision-making
Internal Audit’s Role at CHS

Audit Services performs internal audits and reviews as an independent function providing reports to management regarding:

- Effectiveness of internal controls supporting sound financial reporting and deterrence/detection of fraud
- Effective capture of business services (revenue) and efficient utilization of resources (cost)
- Reliability and integrity of financial and operational information
- Compliance with internal policies and procedures and external laws and regulations
- Safeguarding of assets against damage, loss, theft, or misuse
Facility and Physician Compliance Departments

Chief Compliance Officer
Chief Privacy Officer
Chief Audit Executive

- AVP Facility Compliance
- AVP Physician Compliance
- AVP Audit Services
- AVP Corporate Privacy
Compliance Auditor Role at CHS

Includes:

• Identification of compliance responsibilities
• Assessment of risks
• Advice
• Monitoring
• Reporting on the firm’s compliance with laws and codes of conduct
• Assisting in the prevention of violations
Role of Compliance Auditors

- **Facility Compliance Auditors**
  - Work with acute care, long term care, and hospital-based facilities
  - Perform audits which assess compliance with prescribed coding and billing rules and regulations.
  - Provide education focused on up-to-date regulations and audit findings.

- **Physician Compliance Auditors**
  - Work with all employed providers and outpatient physician practices
  - Analyze provider coding profile information
  - Compares providers’ individual Evaluation & Management (E/M) code patterns to their peers both nationally and within their practice group.
## Facility Compliance Department Audit Responsibilities by Role

<table>
<thead>
<tr>
<th>Title</th>
<th>Personnel</th>
<th>Functions</th>
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</thead>
<tbody>
<tr>
<td>AVP</td>
<td>1</td>
<td>• Coordination of external inquiries and investigations</td>
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<td></td>
<td></td>
<td>• Oversight of functional risk area continuous auditing and monitoring</td>
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<tr>
<td>Directors</td>
<td>2</td>
<td>• Oversight facility coding and billing audits</td>
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<tr>
<td></td>
<td></td>
<td>• Conflict of Interest Investigations</td>
</tr>
<tr>
<td>Senior Compliance Specialists</td>
<td>5</td>
<td>• Inpatient coding audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Outpatient coding and billing audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Investigative compliance audits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Physician profiling and data mining analyses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Focused audits</td>
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</tbody>
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# Physician Compliance Department Audit Responsibilities by Role

<table>
<thead>
<tr>
<th>Title</th>
<th>Personnel</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVP</td>
<td>1</td>
<td>• Auditing/monitoring systems evaluating reimbursement codes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Business practice investigations and interventions</td>
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<tr>
<td></td>
<td></td>
<td>• Identify preventable revenue loss</td>
</tr>
<tr>
<td>Director – Physician Compliance</td>
<td>1</td>
<td>• Annual compliance reviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Medicare, payer audit appeals</td>
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<tr>
<td></td>
<td></td>
<td>• Special audits</td>
</tr>
<tr>
<td>Manager – Coding Support</td>
<td>1</td>
<td>• Analyze denial data and E/M coding profiles</td>
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<tr>
<td></td>
<td></td>
<td>• Shadow reviews and special audits</td>
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<tr>
<td></td>
<td></td>
<td>• Coordination of post-billing reviews</td>
</tr>
<tr>
<td>Compliance Specialists</td>
<td>12</td>
<td>• Regularly scheduled coding reviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Monitor reimbursements</td>
</tr>
<tr>
<td>Coding &amp; Billing Consultants</td>
<td>13</td>
<td>• Shadow reviews and prospective medical record reviews</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review denial data, E/M coding profiles and encounter form information</td>
</tr>
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Compliance Monitoring

- Work plans are developed annually for 27 identified compliance risk areas.
- Facility Compliance Advisors (400+) conduct self-audits outlined in work plans to address compliance risk

<table>
<thead>
<tr>
<th>Ambulance Services</th>
<th>Home Care</th>
<th>Radiology</th>
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<tbody>
<tr>
<td>Ambulatory Care</td>
<td>Human Resources</td>
<td>Rehab Services</td>
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<tr>
<td>Behavioral Health</td>
<td>Lab</td>
<td>Research</td>
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<tr>
<td>Cardiac Cath</td>
<td>Materials Resource Management</td>
<td>Safety</td>
</tr>
<tr>
<td>Chargemaster</td>
<td>Medicare/Medicaid Cost Reports</td>
<td>Taxes</td>
</tr>
<tr>
<td>Clinical Care Management</td>
<td>Medical Staff Services</td>
<td>LTC Finance/Billing</td>
</tr>
<tr>
<td>Emergency Medicine</td>
<td>Patient Accounting</td>
<td>LTC Clinical Svcs/Documentation</td>
</tr>
<tr>
<td>Health Information Management</td>
<td>Pharmacy</td>
<td>LTC Operations</td>
</tr>
<tr>
<td>FCD Action Plan</td>
<td>Physician Network Action Plan</td>
<td>LTC Pharmacy</td>
</tr>
</tbody>
</table>
2. Exploring the Concepts of Partnership and Integration
Historical View of the Relationship Between Internal Audit and Compliance
Partnership Approach

- Open communication among the departments
- Collaboration on work plans
- Departments conduct audit work independently of each other
- Independent reporting of audit findings addressing internal controls and compliance issues.
Integration Approach

- Partner on risk assessments
- Integrated audit plan developed based on joint risk assessment process
- Efficient coverage of risk universe
- Combined report of audit findings addresses internal control and compliance issues
3. Partnering Approach
CHS Corporate Compliance

Approach: Partnering
Partnered Leadership Approach

One leader responsible for both areas

-or-

Leaders of each department communicate regularly
Partnered Strategy

• Supported by frequent communication

• Develop and implement a strategy to execute comprehensive audit plans:
  – Can internal audit review compliance risks during the audit?
  – Can compliance audit look at controls or operations areas when on site?
  – Strategy should emphasize implementation of individual departmental audit plans that complement each other
Identifying and Addressing Organizational Risk through Partnering Approach
Partnering for Efficient Risk Coverage

1. Risk Assessment
   • Evaluate organization’s risk structure

2. Development of an Audit Plan
   • Identify areas where potential overlap may exist

3. Implementation of Audit Plan
   • Communicate with other departments

4. Reporting Audit Findings
   • Develop a strategic timeline to approach identified areas and recommended corrective action plan
1. Partnering on Risk Assessments

- Encourage representatives from both departments to communicate
- Share risk assessments interdepartmentally
- Interdepartmental review should identify areas of overlap
- Periodic meetings with representatives from each department to provide status updates on departmental risk assessments
What should your Compliance Auditors know about Internal Audit’s Risk Assessments?

• Internal Audit identifies potential risk areas and audits the processes to recommend improvements to mitigate the risk.

• Internal audits are not limited to clinical areas.

• The absence of one control can cause a collapse in others.
What do Internal Auditors Need to know about Compliance Risk Assessment?

• How does Compliance identify risk within the company?
• What are the top risk areas they look for in their audits?
• Does Compliance conduct follow-up audits?
Compliance Risk Areas

Compliance Risk Assessment involves analysis of past and future regulatory focus as well as findings of internal and external reviews.

• Compliance sources evaluated to determine risk areas:
  – OIG Work Plan
  – CMS Guidelines/transmittals
  – Program Integrity audit focus areas
  – Internal reports and questions indicating risk
Breakout Session

- Based on your own experience, list examples of successful audits/findings in the following focus areas:
  - Operational Audits
    - Acute care
    - Post acute care
  - Physician practices
  - Research
  - Construction
  - Technology
Identifying Risk

Collaborating departments must share a common understanding of the organization’s risk definition and tolerance.
Benefits of Partnering on Risk Assessments

- Identifies any overlaps in audit plan development
- Diminishes duplicative work
- Improves interdepartmental communication
- Provides educational and knowledge-sharing opportunities
- Achieves a comprehensive assessment of the audit universe
2. Collaboration on Audit Plans

- Developed after risk assessment analysis
- Each department maintains individual and distinct audit plans
- Audit plans complement work by other departments
  - Duplicate work is minimized or eliminated
- Audit plans identify key internal and external stakeholders for each risk area
  - Internal: Empowers auditors to utilize coworkers as resources
  - External: Ensures communication of audit findings to appropriate management and staff
Partnersed Approach:
Collaboration on Audit Plan Development

- Regulatory Guidance
- Current Risk Assessment
- Current or Recent Regulatory Agency Activity
- Management Concerns/Prior Audit Findings
- Input from Administration/Steering Committee
- Plan Modification Based on Risk

Compliance Risk Assessment
Internal Risk Assessment

Collaborative Audit Plan Development

Plan Execution
Plan Execution

Management Reporting & Compliance Scorecard
3. Implementation of Audit Plans

• Internal Audit and Compliance conduct independent audits

• Internal Audit refers potential Compliance issues using established process

• Auditors request Compliance management review and feedback prior to publishing draft report
Tool to Use: Intake Form

Track referrals between departments by utilizing an *Investigation Request Intake/Referral Form*

- Log when the referral or request was initiated
- Track who the referral or investigation was referred to
- Brief Description of Concern/Allegation
- Regulatory References Applicable
- Investigation/Research Assigned To

**Internal Benefits:**
- Establishes a formal protocol to:
  - Document Internal Audit’s specific compliance concern
  - Log the date that the concern was communicated to Compliance
  - Becomes a working document for Compliance Management to evaluate and adjust work plan.
4. Reporting Audit Findings

- Senior Management receives the “Big Picture” at one time
  - Representatives from both departments present findings
  - Audit and Compliance can present independent reports on the findings which demonstrate collaborative efforts
- Recommendations made by each department are reasonable and consistent because of strategic communications
- Upon receipt of reports, Senior Management can take immediate action
- Chief Compliance Officer / Chief Audit Executive provides one all-inclusive report to the Board after Senior Management has been briefed
### Partnered Tool to Use:
Risk Identification Matrix for Reporting

<table>
<thead>
<tr>
<th>Risk Identifier</th>
<th>Financial Impact</th>
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<tbody>
<tr>
<td>Federal Govt (OIG, DOJ, CMS) (High Risk)</td>
<td>&lt; $</td>
</tr>
<tr>
<td>Fiscal Intermediary, Carrier, Other Govt, Public (Mid Risk)</td>
<td></td>
</tr>
<tr>
<td>Internal Monitoring or Auditing (Low Risk)</td>
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</table>

**Risk Identification Matrix**
Partnering Approach  Staff Benefits

• Professional growth
• Team building and employee satisfaction
• Coordinated recommendations
• Knowledge transfer
• Synergy
Impact of a “Partnered” Approach

Leverage expertise of Audit Services and Corporate Compliance to provide an all-inclusive review of client’s department.

• Incorporate additional risks into assessment and audit plans

• Expose gaps and opportunities for process improvement
4. Exploring Another Option: The Integrated Approach
Integrated Leadership Approach

• One leader responsible for both areas
  -and-
• Representatives of each department develop and implement **shared** risk assessments, work plans, and reporting.
Integrated Approach

- Common audit plan developed based on shared risk assessment process
- Internal Auditor and Compliance Auditor conduct audit concurrently
- Combined report of audit findings addresses internal control and compliance issues
Integrated Audit Outcomes

- End product is a combined internal controls and compliance audit of the department
- Jointly identifies areas of potential risk; outlines opportunities for improvement
- Combined expertise yields one auditing benefit for the client
The Challenges of Integration

- Reporting delays
- Internal staff buy-in and learning curve
- Conflicting scheduling priorities
- Management accountability for results
Integrated Audit Process

Benefits

• Compliance is exposed to entire business process
• Client benefits from coordinated findings and reports
• Integrated audit minimizes disruption for the client
• Full Scope of Service for the Client
• Efficient Implementation of Corrective Action Plans
• Personal interaction allows client to gain a better understanding of the roles of Audit Services & Corporate Compliance
Partnership and Integration: Keys to Making Either Option Work
What does an Organization Need for the Partnered or Integrated Option Work?

The organization must adopt a **Collaborative Attitude:**

- Tone at the Top
- Recognizing the right balance of sharing information to avoid inefficient integration
- Coworkers must be comfortable sharing their knowledge
- Territorialism or silos do not work
Keys to Instilling a Collaborative Attitude

• Foster communication between Internal Audit and Corporate Compliance
  – Example: Schedule monthly meetings between Department Management to review work plan updates

• Develop education programs and seminars to share relevant information and skills…
  – Compliance-related Lunch ‘n Learns for Internal Audit staff

• Share industry news and updates between departments to foster a common understanding of the environment
The Collaborative Attitude Continuum

Success is finding the right balance

Siloed
Departments in need of information

Integration
Departments with access to ALL information; no specialization, duplication of efforts
5. Risk Areas to Address with Your Internal Audit Program
Operational Audits
- Acute care
- Post acute care

Physician practices

Research

Construction

Technology
Operations

Reviewing business processes and operations to test for soundness of internal controls, and to identify potential revenue improvements or cost savings.

Examples

• Emergency Department Charge Capture
• IV Fluid and Infusion Charges
Physician Practices

Cyclical audits of business office controls in all physician practices to ensure cash related assets are controlled effectively and revenues are appropriately captured.

Examples
- ABN Review Controls
- CPN Lab Charges
- Controlled Substances DEA Compliance
- Sample Drug Dispensing and Expiration
Research

Auditing of accounting processes and internal controls over grants and research areas to ensure revenues are received timely from sponsors and expenses are appropriately captured and recorded to the studies.

**Examples**
- Research Billing Reviews
- Accounting for Trial Revenue and Expense, including reconciliations and charge capture
- Accounting Systems Access and Data Management
- Investigational Drug and Device Maintenance
- Time and Effort
Construction

Contract compliance and billing reviews of construction activities to ensure accuracy and reasonability of construction costs.

Examples
- Equipment Rental Rates Overbillings
- Subcontractor Buyouts by General Contractor
Technology

Business and technical system reviews for internal control adequacy and compliance with regulatory guidelines.

Examples
- External Business Partner Access Controls
- HIPAA Security Reviews of Business Systems
6. Role of the Board
Board Responsibility for Risk Oversight

- Provide management oversight
- Understand key elements of the organization’s risk
- Ask management about risk mitigation
- Advise on certain management decisions

Source: “Beyond Sarbanes-Oxley”, Internal Auditor magazine, October 2004
Six Priorities for Boards

International Legal firm; Weil, Gotshal & Manges - 2006

1. Take charge of focus and information flow.
2. Ensure Integrity of Management.
3. Set expectations for culture of organization.
4. Formulate corporate strategy with management through risk analysis.
5. Approach to Auditing, Accounting, Internal Controls, and Disclosure are consistent and aligned.
6. Role in helping management to understand the expectations of the community and regulators.
The Role of the Internal Audit Executive

The Board relies upon the Internal Audit Program to:

- Play a significant role in ensuring that corporate initiatives are well-managed and have an impact.
- Develop a methodical and risk-based approach to internal audit activities.
- Provide independent analysis and assessment of internal controls and operations.
- Validate and assess accuracy of automated application controls.
- Provide business units with training on risk and control awareness.

Performance Standard 2060

Reporting to the Board and Senior Management

The chief audit executive should report periodically to the board and senior management on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan.
Practice Advisories

2060 - 1: Reporting to the Board and Senior Management

Periodic Activity Reports

- Highlight Significant Observations
- Review with Sr. Mgmt and then communicate with the board.

2060 - 2: Relationship with the Audit Committee

1. **Assist the board** to ensure its charter fulfills its responsibilities.

2. Confirm the committee has a **clear understanding** of the IA role and activities and is responsive to the needs of the board.

3. Foster and maintain open and **effective communications**.
Reporting and Trending

• Evaluate and concisely report statistical and trending information

• Review the past efficiently
  – Monitor past performance without consuming a majority of the board’s time by adopting the regular use of tools, indicators and scorecards.
# Finance & Compliance Committee Board Presentation Plan

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td>1. Audit Policies and Procedures</td>
<td>Review &amp; Adoption of New Policies</td>
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<tr>
<td>2. Designation of CAE and Independent Body</td>
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<td></td>
<td>Matrix Updates</td>
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<tr>
<td>3. Investigation and Remediation</td>
<td></td>
<td>Sanction Check</td>
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</tr>
<tr>
<td>4. Education and Training Activities</td>
<td></td>
<td>Annual Board Education Session</td>
<td>ACE Module Updates</td>
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<tr>
<td>5. Audit Charter Review</td>
<td>Charter Review &amp; Revisions</td>
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</tr>
<tr>
<td>6. Audit Plan Adjustments</td>
<td>On-going as needed</td>
<td>On-going as needed</td>
<td>On-going as needed</td>
</tr>
<tr>
<td>7. On-going Monitoring Activities</td>
<td>Red Zone Events as needed</td>
<td>Year-End Audit of Program</td>
<td>Red Zone Events as needed</td>
</tr>
</tbody>
</table>
Board’s Checklist of Key Components

Develop a Program Effectiveness Scorecard

– Review program elements to develop scorecard

– Evaluate your program by examining each scorecard element:
  • “In place and working”
  • “In place and being enhanced”
  • “Not in place”

Source: McDermott, Will, & Emory, “Compliance Plan Effectiveness Scorecard”
BREAKOUT SESSION

Board’s Checklist of Key Components
Identify Risk Areas on Checklist

- Risk areas are frequently changing and expanding
- Board members want to fulfill fiduciary responsibilities
- With sufficient information, the board is empowered to ask the right questions or demand required documentation
- Ask board to identify additional needed information and adjust reports to ensure they are fully informed
7. Lessons from the Geese
Tools

• Board’s Checklist of Key Components
• Investigation Request Intake Referral Form
• Risk Defined