

## ***Seven Component Framework For Compliance Auditing & Monitoring In Healthcare Organizations***

### **Introduction**

A focus group of Health Care Compliance Association (HCCA) and Association of Healthcare Internal Auditors (AHIA) members met in spring 2004 to explore opportunities to better define and explain auditing and monitoring, and to clarify the roles of compliance and internal audit functions as they address issues within their healthcare organizations. The HCCA/AHIA team concluded that there is a need to co-develop auditing and monitoring materials to assist our constituents in more effectively addressing compliance auditing and monitoring requirements and challenges.

One of the key HCCA/AHIA team initiatives is the *Seven Component Framework*. This framework was initially developed by the AHIA auditing and monitoring workgroup (A&M workgroup) and has been further refined by the HCCA/AHIA team. We believe that both compliance and auditing professionals will benefit from using this framework as a guide in considering the important components of a comprehensive auditing and monitoring process. The following contains excerpts from this compliance auditing and monitoring framework.

Achieving effective and compliant healthcare functions cannot occur without well defined and ongoing compliance auditing and monitoring processes. Auditing and monitoring processes serve as the bridge to integrate hospital clinical and non-clinical departments and allow for addressing critical business risks and compliance issues. The following overview identifies the need for auditing and monitoring and outlines the seven key components that will serve as an industry standard framework for compliance auditing and monitoring processes.

The AHIA workgroup initially began by questioning what was needed in the healthcare arena to improve not only the internal auditor's role but also non-functioning healthcare processes as a whole. It was determined that there was a common dilemma within many healthcare systems where the clinical and financial areas did not communicate or work together, thereby creating difficult compliance challenges and inherent risks to the organization.

An illustration of such challenges is provided as follows: Compliance with most of the high risk Medicare and Medicaid regulations (such as those billing issues that create false claims) begins at the patient point of entry to a healthcare system (outpatient or inpatient services) and continues throughout the revenue cycle until the issuance of a claim for service(s) rendered. Generally, clinical operations govern a patient's medical services at the point they enter a healthcare facility. It is during this time that documentation occurs in the medical record, physicians order tests and prescriptions, therapists render therapy services, radiology takes x-rays, phlebotomists take blood, pharmacy issues drugs, etc. While each individual area is generating daily charges, there is no corresponding coordinated review of the final claim for complete and appropriate charges. The patient financial services department is typically in a separate building and processes claims based on what the clinical personnel submit to them, either manually or electronically via the patient management and billing system. While everyone in these areas has a specific function and duty within healthcare clinical and financial operations, there are usually a very limited number of employees who actually understand both components and are able to work towards integrating the clinical and financial functions to produce results that are compliant with the myriad of applicable laws and regulations.

By definition, the roles of the internal auditor and the compliance officer include the ability and responsibility to view and function in a healthcare organization at a macro as well as a micro (departmental) level (also known as top down, bottom-up approach). Without understanding how the entire revenue cycle fits together, neither internal audit nor compliance can do their job effectively. In recognizing this, we determined that auditing and monitoring operations for compliance were two essential functions, as well as essential steps, in the OIG Model Compliance Guidance. The OIG and the healthcare industry have not yet provided effective specific guidance on auditing and monitoring techniques in sufficient detail for most HCCA and AHIA members to rapidly ramp up and begin implementing these important aspects of their overall compliance programs.

The workgroup defined the difference between auditing and monitoring in the context of regulatory compliance as opposed to other financial and operational aspects of healthcare that may also be subjected to auditing and monitoring activities.

- *Monitoring* is a process involving ongoing “checking” and “measuring” to ensure quality control. The process of monitoring is generally less structured than auditing and is typically performed by departmental staff. Monitoring involves daily, weekly, or other periodic spot checks to verify that essential functions are being adequately performed and that processes are working effectively. The process of monitoring can indicate the need for a more detailed audit.
- *Auditing* is a more systematic and structured approach to analyzing a control process. It is a formal review (performed by an individual(s) independent of the department) that usually includes planning, identifying risk areas, assessing internal controls, sampling of data, testing of processes, validating information, and formally communicating recommendations and corrective action measures to both management and the Board.

In this regard, while internal audit and compliance often work hand-in-hand, compliance is typically responsible for providing oversight and direction for compliance monitoring processes, and internal audit is typically responsible for providing oversight and direction of compliance audit activities.

## **The Seven Component Framework for Auditing & Monitoring Processes**

Auditing and monitoring are essential but often missing links in healthcare operations and the internal audit and compliance arenas. The lack of a defined framework to address and correct compliance related issues that are handled either by compliance auditors or internal auditors is a critical void that we believe should be addressed by organizations adopting the *Seven Component Framework* developed by our workgroup.

The *Seven Component Framework* for compliance auditing and monitoring will add value by providing organizations with a methodical approach to more effectively address difficult compliance issues. The seven components are inter-related but do not always need to be addressed sequentially. Each component should be reviewed in the most appropriate sequence for the specific issue or immediacy of the evaluation process. We believe that thinking about compliance auditing and monitoring in terms of this framework will serve as a useful and effective tool to ensure compliance, as well as assist in better integration of various aspects of clinical and financial oversight and management functions within healthcare systems.

It is important to note that we do not assume that one person will or should be responsible for all the components. Instead, the intended goal is that these steps can be used to create a common methodology or road map among a team of leaders for addressing issues and validating compliance.

The *Seven Component Framework* for compliance auditing and monitoring is comprised of the following:

- Perform a risk assessment and determine the level of risk.
- Understand laws and regulations governing those areas to be monitored and possibly audited.
- Obtain and/or establish policies for specific issues and areas, define accountability in the policy, and develop procedures to support the policies.
- Educate on the policies and procedures and communicate awareness of key requirements.
- Monitor compliance with Laws, JCAHO, and organization's policies and procedures.
- Audit the highest risk areas.
- Re-educate staff on the law, policies and procedures, issues identified in the audit, and corrective actions planned or taken.

## **Implementing the Seven Component Framework for Auditing & Monitoring**

Effective coordination, joint annual planning, and specific project planning by compliance and internal audit functions are essential for successfully integrating auditing and monitoring processes within an organization. The HCCA /AHIA auditing and monitoring focus group believes that customization of the framework for each organization will depend on each healthcare entity's organizational structure, assigned resources to compliance and internal audit functions, governance model, and related strategies. As future articles are developed to expand on each component of the *Seven Component Framework*, further guidance will be provided on recommended roles and responsibilities for the compliance and internal audit functions.

## About the HCCA/AHIA Auditing and Monitoring Focus Group

The HCCA/AHIA auditing and monitoring focus group will be developing a series of additional articles regarding the seven components to expand on the roles of compliance and internal audit functions, provide detailed “how to steps”, and discuss the essential coordination links between compliance, internal audit, legal, and management that are necessary for each component.

Members of the HCCA/AHIA focus group are:

- Randall K. Brown, Baylor Health Care System, Dallas, TX; [RandalBR@BaylorHealth.edu](mailto:RandalBR@BaylorHealth.edu)
- Britt H. Crewse, Duke University Health System, Durham, NC; [crews012@mc.duke.edu](mailto:crews012@mc.duke.edu)
- Al W. Josephs, Hillcrest Health System, Waco, TX; [al.josephs@hillcrest.net](mailto:al.josephs@hillcrest.net).
- Glen C. Mueller, Scripps Health, San Diego, CA; [Mueller.glen@scrippshealth.org](mailto:Mueller.glen@scrippshealth.org)
- Debi J. Weatherford, Children’s Healthcare of Atlanta, Atlanta, GA; [debi.weatherford@choa.org](mailto:debi.weatherford@choa.org)

The next three priorities for the focus group will be to publish articles and guidance materials in October through December 2004 on (1) planning and performing a compliance risk assessment; (2) identifying key compliance monitoring activities with references to applicable laws and regulations; and (3) providing compliance auditing methodologies, tools, and techniques.

**Author:** Debi J. Weatherford, Director, Internal Audit & Corporate Compliance at Children's Healthcare of Atlanta. Ms. Weatherford can be reached at [debi.weatherford@choa.org](mailto:debi.weatherford@choa.org).