

Risk Assessment Processes and Tools

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Session Objectives

- **Discuss and compare Compliance Risk Assessment and Enterprise Risk Management (ERM)**
- **Highlight the key elements of an effective and efficient risk assessment process**
- **Provide an overview of the risk identification, assessment and prioritization processes and tools being used at Catholic Healthcare West (CHW) and Catholic Health Initiatives (CHI)**

Why Conduct a Compliance Risk Assessment – Government Perspective

- **Government guidance**

- Federal Sentencing Guidelines
“Organizations shall periodically assess the risk of criminal conduct and shall take appropriate steps...”
- Effective Compliance Program Element
- AHLA and OIG board governance guidance
“Does the compliance program address the significant risks of the organization? How were those risks determined and how are new compliance risks identified and incorporated into the program?”

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Why Conduct a Compliance Risk Assessment – Business Perspective

- **Proactive versus reactive**
- **Supports Enterprise Risk Management**
 - Prioritization and alignment of risk and resource deployment
- **Cultural integration**
- **Compliance program value, awareness and focus**
- **Mitigation of penalties and interest and corporate integrity agreement**
- **It gives compliance officers something to do in their spare time!!!**

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Resources For Developing Compliance Risk Focus Areas

- **OIG website:**
 - Compliance Guidance
 - Annual Work Plans
 - Fraud Alerts, Bulletins, and Guidance
 - Audit Reports
 - Advisory Opinions, etc.
- **Other regulatory websites and information**
- **Internal and external audit reports**
- **Consultants**
- **Industry and vendor listserves, communications, peers, etc.**

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Effective and Efficient Risk Assessment Processes

- **Tool/Process Development**
 - Risks
 - Associated key stakeholders/risk owners
 - Internal and external controls in place for risk mitigation
 - Risk rating and ranking (prioritization) process
 - Gap analysis
 - Risk mitigation action plan development and implementation

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Effective and Efficient Risk Assessment Processes (cont)

- **Action plan accountability and monitoring process**
- **Periodic risk assessment process reporting (management and governance)**
- **Ongoing reevaluation and update of risks (a minimum of annually)**

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What is all this hype about Enterprise Risk Management and how does it fit into organizations' compliance risk assessment processes?

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ERM Definition

- **Enterprise Risk Management (ERM) is, in its simplest terms, a process for ensuring the effective identification, assessment, and management of all risks *that management determines are “significant” to an entity.***

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Is ERM a New Concept?

- **No, ERM has been a health care practice for as long as there have been hospitals**
- **Many health care providers are formalizing and providing structure to this long-standing practice of assessing risk**
- **Compliance officers have been assessing risk for years and are natural leaders/facilitators of ERM implementations**

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Creating an Effective, Transparent ERM Process

- **Risks and Objective Setting**

- Evaluate and develop risk strategy in the context of mission, values and strategic objectives
- ***Identify events that might interfere with system objectives***
- Define system risk tolerance
 - Potential for adverse events the organization is willing to bear
- Once exposure rises above acceptable threshold, implement internal risk management systems

- **Build “Systemness”**

- Identification and assessment of risk using a consistent approach/discipline
- Supports cross functional ownership and accountability

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Program Assessment versus Risk Assessment

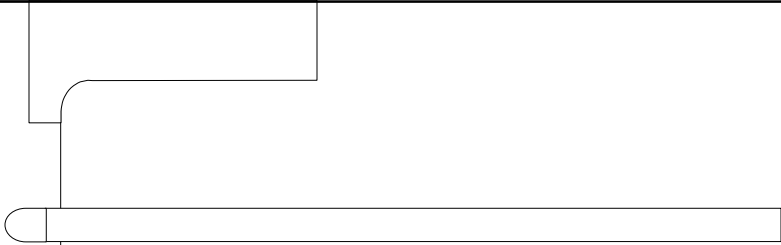
- **Program Assessment**

- Program effectiveness evaluation
- Retrospective
- Exposures – Corporate integrity agreement and strategic, operational, financial and legal

- **Risk Assessment**

- Organizational Compliance Risk (not program risk)
- Prospective
- Exposures – strategic, operational, financial and legal

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CHW's Compliance Risk Assessment Approach

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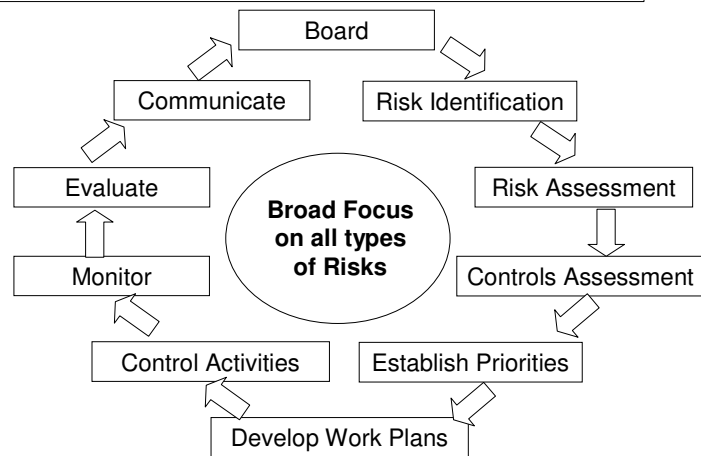


CHW's Risk Assessment Process

- **Organization wide (multiple inputs)**
- **Systematic**
 - Identify risks
 - Quantify risk impact (reputation, legal, financial) and organizational vulnerability (likelihood, detectability)
 - Evaluate risk control effectiveness
 - Rank and prioritize risks
 - Address most significant risks

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Risk Assessment Process Flow



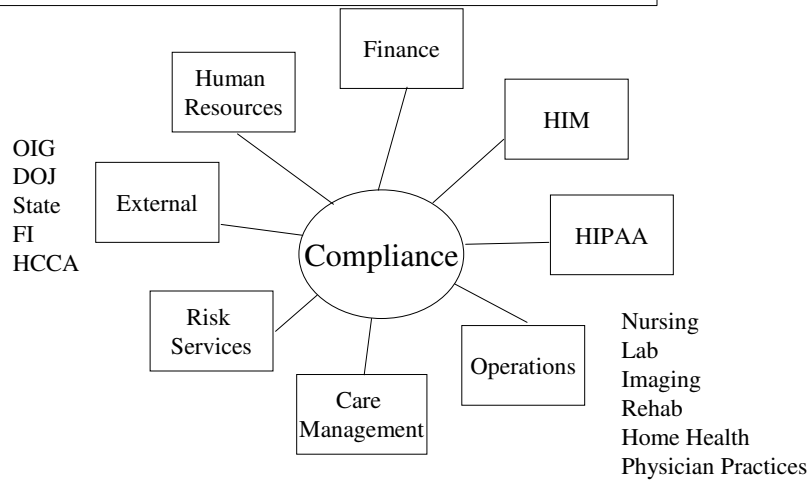
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Risk Identification

- **Risk** - An observable event or action that can have a material effect on the reputation, financial, operational, or strategic performance of the organization.
- **Pure Risk** – Potential for gain as well as loss (strategic risk)
- **Fortuitous Risk** – Only potential for loss (operational risks)

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Risk Identification



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Risk Identification Process

- **Broad survey of cross-functional leaders within CHW**
- **Identify those risks which, if realized, could have a significant effect on mission and reputation or present significant financial or legal exposure**
 - Exposures now and in next three years
 - Key process or functions
 - Key strategic initiatives

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Risk Assessment

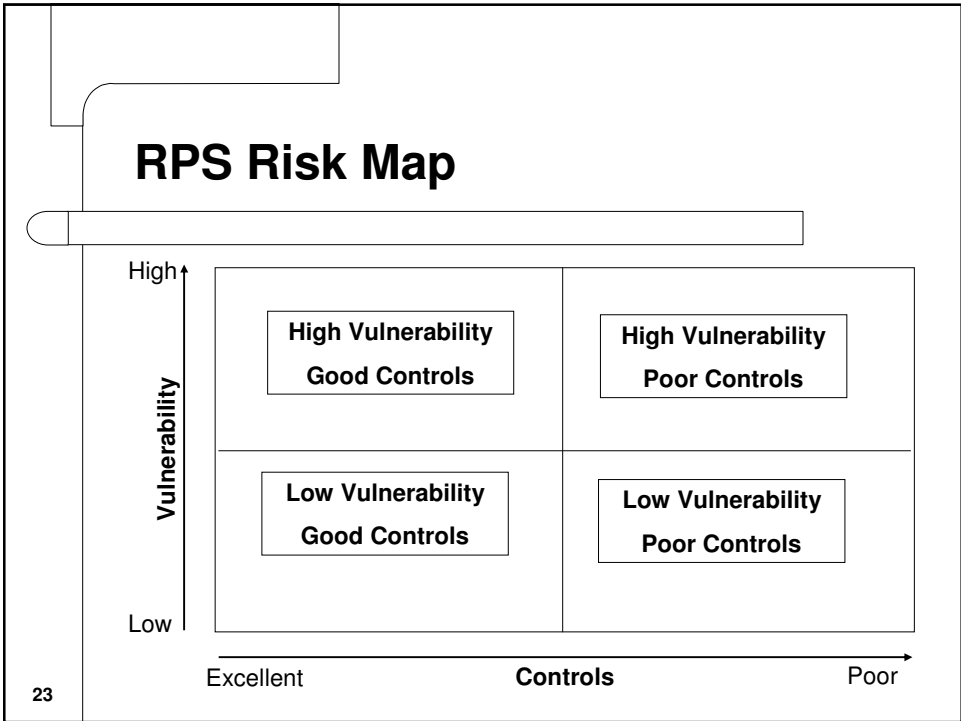
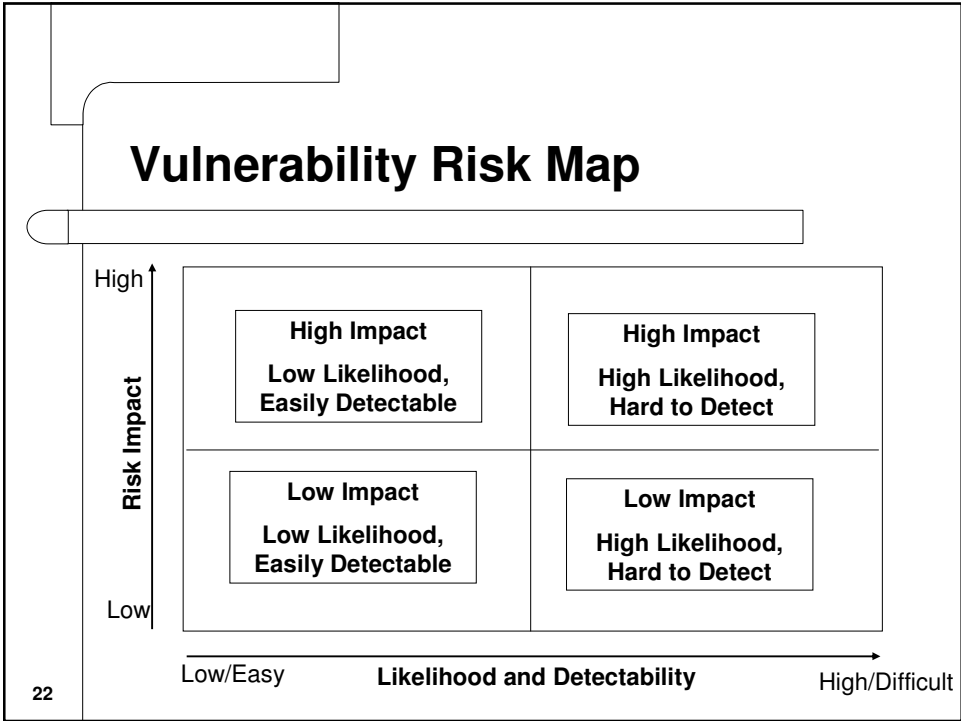
- **Risk Impact**
 - Mission and Reputation
 - Financial
 - Legal
- **Vulnerability**
 - Likelihood
 - Detectability
- **Current Control Environment**
- **Risk Prioritization Score (RPS)**

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Risk Assessment Scoring Tool

- **Each element scored on 1-5 scale (1 being little or no risk, highly unlikely, easily detectable, excellent controls)**
- **Score assignment based on defined thresholds**
- **Example: Financial Impact**
 - 1 = Loss of less than 0.05% of net revenue
 - 3 = Loss of between 0.1% - 0.5%
 - 5 = Loss of greater than 1.0% of net revenue

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On-Going Work

- **Evaluate risks with highest RPS**
- **Implement work plan and control activities**
- **Monitor progress**
- **Evaluate effectiveness**
- **Communicate results**
- **Refine and improve assessment process**
- **Reassess risks – start the cycle again**

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CHI's Compliance Risk Assessment Approach

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CHI's CRP Risk Assessment Tool

See handout entitled

“Catholic Health Initiatives Corporate Responsibility Program FY 2007 MBO Risk Assessment Matrix -- *Non Critical Access Version*”*

* Glossary not included

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Risk Assessment Tool Components

- **General Issues**
- **Hospital**
- **Long-Term Care**
- **Physician Practices**
- **Durable Medical Equipment**
- **Homecare**
- **Hospice**

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Local Facility Process

- Annual review, update and distribution
- Risk assessment, priority rating/ranking, and action plan development completed by local compliance committee
- Annual effectiveness assessments – see handout entitled “CHI FY 2006 CRP Effectiveness Measurement Tool”
- Annual report to board, with periodic reports to local governance committee and senior management team
- Compliance committee responsible for monitoring and accountability of action plan implementation

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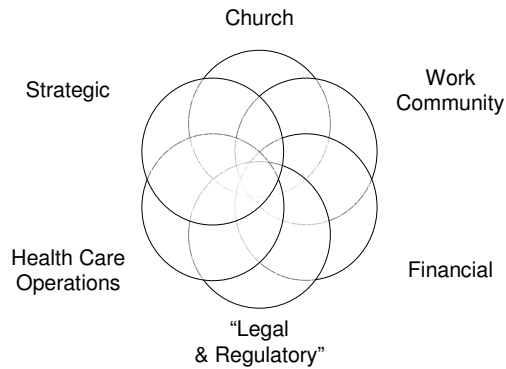
Corporate Process

- Annual review, update and distribution
- National/corporate risk assessment, priority rating/ranking, and action plan development completed by corporate compliance committee
- Roll up of local risk assessments and associated action plans into National assessment
- Develop FY audit priorities
- Annual report to board, with periodic reports to audit and compliance committee of the board
- Roll up of key risks into ERM model for additional attention and monitoring

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ERM and Compliance – CHI’s Link

Risk Domains



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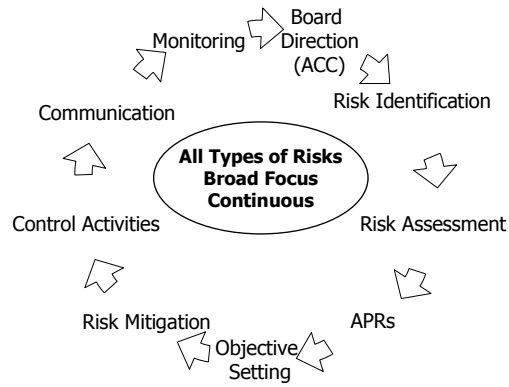
CHI’s Legal & Regulatory Risks

- **Risks impacting compliance with laws, regulations and standards**
- **Governance Oversight**
 - Board Audit/Compliance Committee



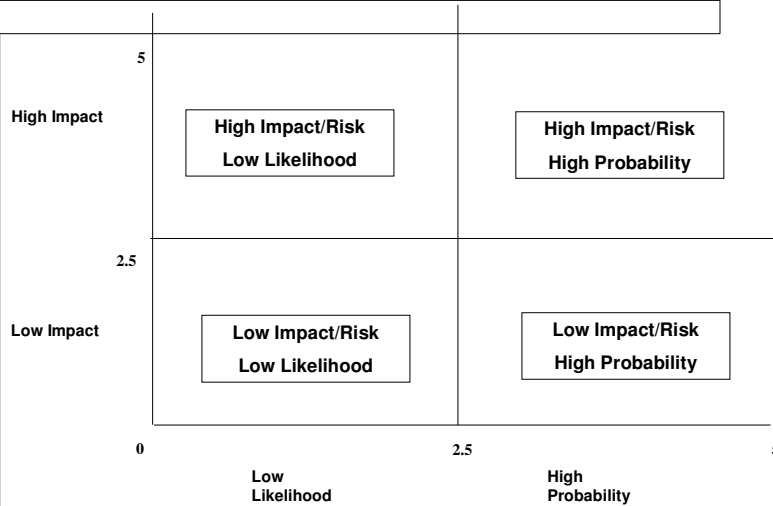
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ERM Process Flow



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ERM Tools: Risk Mapping



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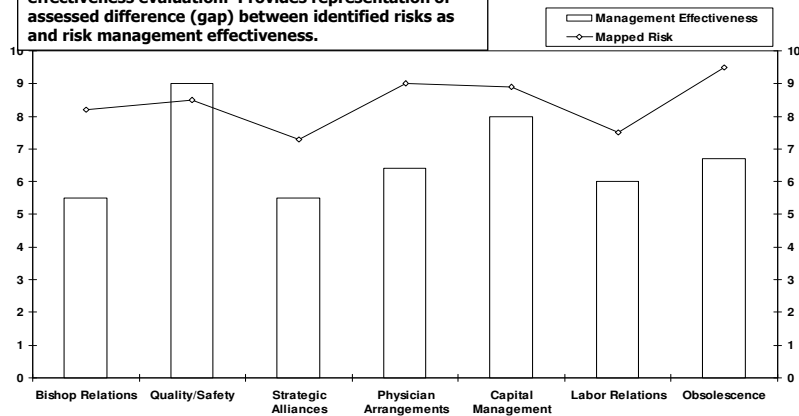
Sample Mapped Risk Scores – Regulatory and Compliance

	Impact	Likelihood	Risk Score
Clinical Documentation	5	3	8
Outpatient Billing	5	2	7
Relationships with Physicians and Other Referral Sources	4	4	8
Tax Exempt Status	5	2	7
Billing for Homecare Services	3	4	7
Tax Exempt Bond Compliance	3	1	4
Charitable Purpose	4	2	6

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ERM Tools: Sample Risk Gap Analysis

Mapped Risk scores combined with management effectiveness evaluation. Provides representation of assessed difference (gap) between identified risks as and risk management effectiveness.



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Questions and Answers

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Resources

- <http://oig.hhs.gov/fraud/complianceguidance.html>
- <http://www.ussc.gov/guidelin.htm>
- <http://oig.hhs.gov/fraud/docs/complianceguidance/040203CorpRespRsceGuide.pdf>

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