

*How and when should
you leverage internal
audit?*
March 28, 2017

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Agenda

- Internal Audit foundation
- 3 lines of defense
- Trends in consultative & value enhancement work
- Why you should care
- Key takeaways

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What are your initial thoughts on internal audit?

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What are your initial thoughts on internal audit?

Boring!

Adversaries!

Who?

Strategic Partner?

Nuisance!

Blocking and tackling

Gotcha!

Financials

Sleepy time!

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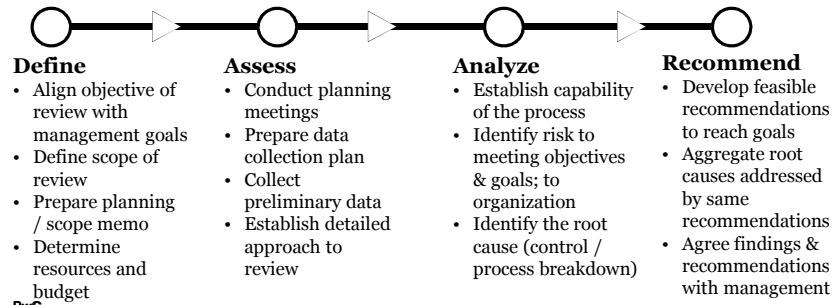
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Internal audit overview

What is internal audit?

“Internal auditing is an **independent, objective assurance and consulting** activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

-The Foundation for the IIA Standards



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Wait! Before we go on...

...isn't internal audit the same as compliance or quality assurance?

Great question!

What do you think?

Are they the same? How should they differ?

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3 lines of defense

Risk Management Framework			External Auditors	Regulatory Bodies
Business Management	Compliance and Quality Assurance	Internal Audit		
<i>First line of defense</i>	<i>Second line of defense</i>	<i>Third line of defense</i>		
← Not independent →		← Independent →		
<ul style="list-style-type: none"> • Reports on organization's performance • Owns day to day control activities • Designs & operates controls • Considers costs & benefits • Re-evaluates processes & controls • Communicates risks & needs to board • Establishes escalation methods • Remediates identified risks 	<ul style="list-style-type: none"> • Monitors, consolidates & reports on control performance • Collaborates with management to execute controls & set best practices • Verifies risk objectives are being met • Monitors remediation efforts & provide inputs as needed • Proactively responds to changing business needs • Typically focuses on regulatory requirements 	<ul style="list-style-type: none"> • Periodically verifies the completeness and accuracy of management reported activities • Provides assurance controls are designed & operating effectively to mitigate risks • Reports on fraud risk • Escalates non-performance to governing bodies • Verifies remediation plans mitigate identified risks • Can focus on regulatory and institutional operational requirements 		

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Internal audit vis-à-vis compliance

	Internal Audit	Compliance
Definition	Independent, objective assurance and consulting activity designed to add value and improve operations	Preserve corporate integrity and adherence to a code of organization ethics and ensure compliance with regulatory matters
Purpose	<ul style="list-style-type: none"> ➢ independent appraisals of governance, risk and control ➢ review reliability and integrity of financial information ➢ safeguarding of assets ➢ review consistency with operational goals and objectives ➢ recommend operating improvements 	<ul style="list-style-type: none"> ➢ encourage the use of internal controls to monitor adherence to applicable regulations ➢ effect change as necessary to achieve regulatory compliance ➢ create organizational compliance policy and procedure, compliance training ➢ protect and secure PHI ➢ implement HIPAA Privacy and Security standards
Authority	Audit Committee Charter Internal Audit Charter	Compliance Program Compliance Committee Charter
Management Relationship	Independent with no operational responsibilities; reports directly to Board or Audit Committee; does not own policies	Operational responsibility for administering the compliance program; reports to management; may create and / or own policies
Expertise	Primarily with internal controls	Primarily in regulatory matters
Internal Controls	Confirm internal controls are designed and operating effectively	Understand, help design and encourage the use of internal controls

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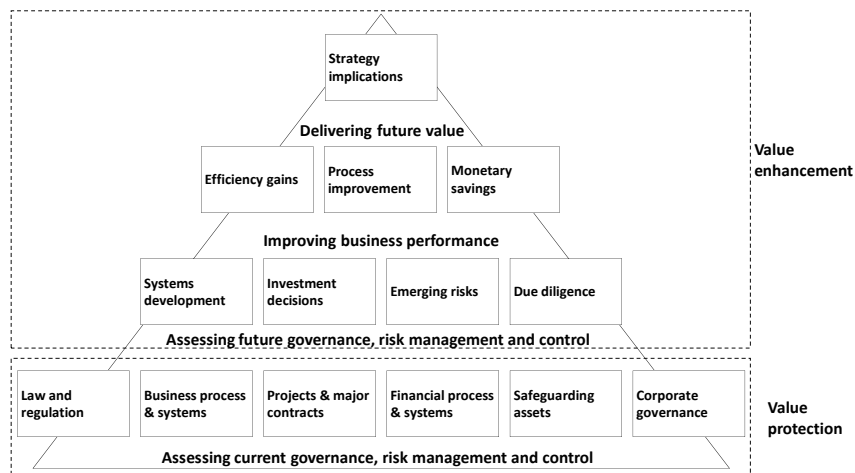
State of the internal audit profession

- Shifting from retrospective → prospective
- Innovation
- Moving from value protection → value enhancement
- Alignment with business objectives & strategic initiatives
- Collaboration with second line of defenses
- Right mix of talent and business acumen
- Effective & timely communication
- Follow-up and monitoring process

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Internal audit value enhancement opportunities

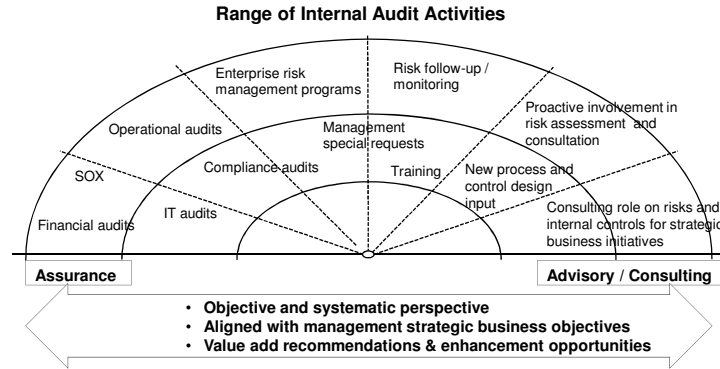


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Internal audit value enhancement opportunities

Internal audit can provide a wide range of value-added services ranging from traditional financial assurance to organizational-wide risk management / governance models. Specifically, **management is now looking for a partner to advise during critical and strategic initiatives.**

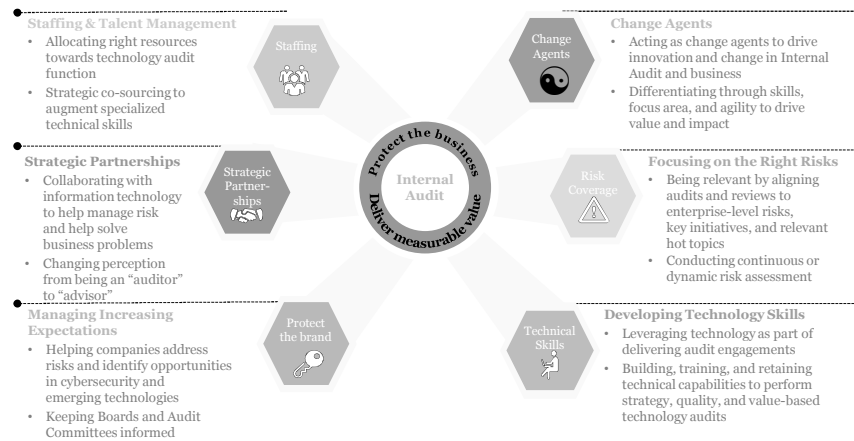


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Internal audit can help navigate the changing technology landscape

Internal Audit functions need to evaluate their maturity and ability to help the business identify risks and opportunities in the new technology era.



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Internal audit analytics

With the changing organizational risk landscape facing organizations, Internal Audit must focus the right level of testing at the optimal time.

Internal Audit analytics methodology should use flexible, tailored technology throughout the audit lifecycle to highlight, measure, and react to key risk areas, resulting in the right audit coverage, depth and breadth.

Analytics-Enabled Internal Audit Methodology



Core technical capabilities: visual analytics, risk scoring, data profiling, CAATs, data science and predictive modeling, unstructured data analysis, text analytics, dashboarding, alert monitoring, process interrogation and time sequencing.

Sample projects and coverage

Internal Audit Engagements	Compliance Projects
Value Based Program Implementation	CMS Admission Criteria- Inpatient Status vs. Observation/ Outpatient
Ambulatory Expansion Risk Management Assessment	Admission Orders (Inpatient/ Observation)
Clinical Research Billing Consultation	Evaluation and Management Services - Facility Level Coding Accuracy
Entity Level Controls Readiness Assessment	Anesthesia services - Payments for personally performed services
Medical Device Security Assessment	HIPAA / Privacy Program
Epic Billing Reimbursement Assessment	Attending Physician Billing Compliance
Pharmacy Operations Management	Hospital Same - Day Discharges and Readmissions
Emergency Preparedness and BCM Review	Provider Based Billing Status - Medicare
340B Data Analytics	Manufacturer Recall Credits

**Why should I care?
How does this impact me?**

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Audit findings - material impacts

Is your internal audit function helping you to manage these risks?
How comfortable are you with your processes and internal controls?

Institution	Amount	Reason
University of Minnesota	\$32M	Misuse
NYUMC	\$15.5M	Inflated research costs
Tenet Healthcare	\$514M	False Claims Act (kickbacks)
UCLA	\$8.5M	Conflict of interest disclosure
Mayo	\$6.5M	Mischarging grants
Advocate	\$5.55M	Laptop data breach / HIPAA violation
Northwestern	\$5M	Effort
Cardinal Health	\$44M	Memorandum compliance due diligence
Cornell	\$4.4M	Clinical research
Harvard/BIDMC	\$3.25M	Costing
Medtronic	\$17M	Price fixing in China
Rideout Health	\$2.4M	Drug records mismanagement
NY Presbyterian	\$2.2M	Patient consent / HIPAA violation
MedStar Hospitals	Bitcoin	Ransomware attack / held data hostage
UCLA	TBD / \$865K	Data breaches
Trinity Health	\$75M	Pension mismanagement

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Internal audit transformation - areas of focus

Ensure you obtain the results of all reports issued by other auditors and discuss with auditors and consider any implications to the current year audits. For example:

- External audits of financial statements
- Government / regulatory audits (HRSA, JCAHO, OIG, etc.)
- A-133 reports
- Effort reports
- Second line of defense findings (compliance, quality assurance, etc.)

Understanding the above plus management's current strategic initiatives, current internal audit functions should be focusing on adding value in...

- Mergers & acquisitions
- Value based programs
- Clinical integrated networks
- Enterprise risk management
- Shared service centers / central business offices
- Quality measures improvement
- Cost allocations / funds flow
- Cybersecurity
- Research / clinical trials

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Key takeaways

- Internal audit does more than protect the base
- Independence requirements do not impede internal audit from providing consultative services and value enhancement
- Leverage your internal audit as another resource
- Include internal audit as another work stream / department
- Ask your Board and Audit Committee if they are receiving the value expected from internal audit

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Questions

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