



The Next Great Wave: Effective Deployment of Continuous Assurance

By David Chiang, CA, CIA, CMC, ACDA

Executive Summary

“Do more with less,” is a common mantra across healthcare, and one internal auditors are hearing very clearly. But, doing all audits the same old way with limited use of technology puts internal auditors behind the proverbial eight-ball. The availability of technology that can be employed at the user level has mushroomed and internal auditors have the opportunity to avail themselves of it to meet current demands and expectations. Continuous assurance technology has been discussed within the internal audit profession for quite a while, but it has not been readily deployed as a tactic to leverage expectations and demands. CAEs need to step up training and hone staff skills in the use of automated tools. Failure to do so limits internal audit’s ability to add full value to their Board and to their organization’s bottom line.

Earlier this year, healthcare professionals around the globe were busily preparing their pandemic plans to address the H1N1 Swine Flu crisis. While these activities were warranted based on the magnitude and severity of the dangers, other risks which should also be of concern to Chief Audit Executives (CAE) still lurk deep in the caverns of many healthcare organizations.

CAE’s Critical Role in Effective Controls Assurance

Along with other matters, CAEs are tasked with the responsibility to assess an organization’s preparedness against the risk of fraud, compliance failures, and other wastage of resources—dangers that can have a crippling effect on a healthcare organization’s ability to perform its core mission.

From a controls assurance perspective, the CAE is a key resource to the organization’s management and Board of Directors. They rely on the CAE and the Internal Audit Department to help them define the types of risk ranging from strategic, operational, and business risks and to assess these risks so they can properly fulfill their fiduciary and statutory responsibilities.

These responsibilities have been under intense scrutiny as a result of major governance and control breakdowns in the business sector. These concerns have “become even more pronounced in the past year due to the shocking collapse of major financial institutions as well as other long-established companies in other sectors.” [Prybil]

In response to this crisis of confidence, “healthcare organizations and their governing boards are being scrutinized more closely than ever before. The

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Internal Revenue Service (IRS), the Government Accountability Office (GAO), a growing number of legislatures and attorneys general” are now giving greater consideration to governance and management structures and processes. [Prybil]. Stakeholders are demanding more accountability, transparency, and rigor from those that hold governance roles. Well-intentioned Boards are paying more attention to this scrutiny and

seeking established principles and tools for improvements in governance.

“A number of directors have expressed concern that the quality of information they receive about risk sometimes hinders their oversight efforts.” [Keizer] For most organizations, the CAE can be in the best position to help Boards and management deliver on their responsibilities by providing greater clarity of critical information. And, it’s not just a onetime event. Boards and management are looking for continuous assurance that key risks are being monitored and remediated on a regular basis.

Achieving Continuous Assurance

Continuous assurance is defined as the automatic method used to perform control and risk assessments on a more frequent basis. Technology plays a key role in continuous audit activities by helping to automate the identification of exceptions or anomalies, analyze patterns within the numbers, review trends, and test controls among other activities. [De Aquino]

So, how does a CAE address the need for continuous assurance?

Begin by working with management to agree on the types of risk information that can help Boards deliver on their oversight role and management to better manage the operations. To do this effectively, internal auditors need to adopt technology that provides them greater insight into the organization’s data.

Data analysis tools, such as ACL and AuditExchange, are designed to make the audit and risk identification and remediation processes more efficient and effective. Now, more than ever, technology improvements have created an “ideal opportunity for internal auditors to make a real difference and to be seen in a new light within the organization.” [Verver]

Take, for example, Memorial Healthcare System—a leading healthcare provider with six hospitals and multiple outpatient facilities, including their flagship Memorial Regional Hospital and the Joe DiMaggio Children’s Hospital. In a project directed by their finance department, Memorial implemented continuous monitoring in their purchase-to-payment cycle. In just three months, the finance team was able to identify key areas for controls enhancement, procedural improvements, and cost savings through reduced third-party audit commissions.

Some typical controls assurance for the purchase-to-payment cycle include tests for split requisitions; purchase orders and invoices; purchasing limits; matching of goods received vs. purchased; and various other segregation of duties tests to ensure proper authorization and transaction validity.

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Said Robert Gutholc, Director Financial Controls, “We are looking forward to expanding the use of continuous monitoring solutions and achieving similar results in other critical business areas.” The CFO and Director of Finance plan to expand the use of data analytic solutions to monitor General Ledger and Payroll cycles.

The key to Memorial’s success was the use of technology to achieve continuous monitoring of their processes. By quickly identifying high risk areas for procedural and operational improvements, the Memorial team was able to pinpoint more than a half-million dollars in potentially

recoverable payments that had occurred in the previous three years. This visibility provided management with early warnings that enable real-time evaluation of key transactions.

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Technology is Essential for Continuous Assurance

Technology provides a means of reducing costs and improving productivity, both key outcomes in the current economic downturn. While there is widespread recognition of the value of analytics and transactional monitoring within the audit profession and by many CAEs, the current reality is that most internal audit organizations are far from maximizing the actual benefits to be gained.

State of Continuous Assurance

The 2009 State of the Internal Audit Profession Survey by PricewaterhouseCoopers found that “Internal Audit Departments’ use of technology tools to drive efficiencies is not as widespread as needed, and even when those tools are available, usage of full functionality is not widely explored.” [PwC Survey]. The survey recommended internal auditors automate issues-tracking and reporting; testing entire data populations automatically to improve the effectiveness in the search for errors or unusual transactions; and to apply technology to conduct real-time reviews, escalate issues, and ensure compliance with standards. [PwC Survey].

This survey, and others that have been conducted during the past two years, have shown that technology is expected to be the most significant factor affecting the future of internal audit. Among different types of technology, those for data analysis, fraud detection, continuous auditing and monitoring are considered the most important.

Technology Use to Counter RACs

One area where audit analysis can provide immediate and tangible results is in preparing for the Medicare Recovery Audit Contractor (RAC) program. Created

through the Medicare Modernization Act of 2003, the objective of the program is to identify and recover improper Medicare payments paid to healthcare providers under fee-for-service Medicare programs.

Full rollout across all states was required by January 2010.

As the RAC program becomes a permanent feature across the United States healthcare industry, the use of audit analysis software to assist in preparing for the RAC audit has proven valuable. At Palomar Pomerado Health (PPH), which operates two hospitals serving communities in South Riverside and North San Diego, California, the District Audit Officer, Tom Boyle, has used audit analysis technology in their RAC plans. “PPH has implemented a strategic RAC Attack program to prepare for future RAC audits. PPH tries to find potential problems before they become coding and billing errors that could be uncovered in a RAC audit.” Said Boyle, “We want to find those problems before [the RAC auditors] do. We identify the top five to ten risk areas and we concentrate on those.” [Healthcare Risk Management September 2009]

By setting up audit analytics with flexible parameters, these tests can alert investigators to anomalies or unusual trends such as excess charges, incorrect days charged, or unexpected charges. As part of PPH’s continuous monitoring plan, Boyle uses ACL’s AuditExchange2 to develop a billing validation solution that monitors medical cases and procedures, in order to look for these missing charges before the patients are discharged from PPH facilities or bills are closed. Boyle expects to see significant cost recoveries and better assurance when the RAC auditors arrive— all adding to the bottom line value his function brings to the organization.

Step Up and Add Bottom Line Value When it’s Needed Most

By applying analytic technologies effectively, internal auditors can make significant improvement to the efficiency and effectiveness of the internal audit

function itself. It is not uncommon for audit departments to see significant improvement in output from their audit teams when audit analytics are integrated into the audit process.

Boards and their Audit Committees have an increasing expectation for internal audit to play a more proactive role in assessing the effectiveness of the organization's risk management practices, and to provide Board Members with greater insight into specific risks. By implementing continuous assurance techniques, internal audit is able to provide more timely insight into risks within common business process areas. Internal audit can also automate standard audit procedures to free up audit resources to focus on areas of specific and immediate risk.

The Internal Audit Department of Bon Secours Health System, Inc., one of the largest US Catholic healthcare providers, with facilities in nine states, is another organization that understands bottom line value. Using audit analytics technology, Bon Secours has implemented a continuous monitoring strategy and increased coverage across the organization.

In only three months, internal auditors identified over \$500,000 in duplicate payments and in an 18-month period, found over \$1 million in lost gross patient charges. The latter was found by analyzing coding procedures on patient bills. Both of these had a positive effect on the organization's bottom line. Said Byron Neaman, Bon Secours Director of Internal Audit, "Our initial findings generated considerable interest. These are big dollars and everyone wanted to know how we found them."

Audit analysis technology enabled Bon Secours' auditors to improve their reach and efficiency. Complex data transfers are now streamlined to allow downloading, analysis, and report generation with just one user application. By automating data handling processes that used to require

manual intervention, audit staff can now spend valuable time exploring anomalies and improving quality assurance and controls compliance procedures. Overall, these benefits have improved the way internal audit performs its work.

Improvements in Audit

In the March 2009 GAIN survey published by the Institute of Internal Auditors, study participants were asked how the use of data analysis software improved their internal audit capabilities. The top four responses were:

- Has increased the efficiency of audits (e.g. more detailed analysis of data; helps analyze data for trends)
- Enables analysis of large amounts of data, or 100% of all data
- Established independence of internal audit function
- Helps internal auditors obtain frequency of errors and detect fraudulent activities

These are just some of the many benefits that can be achieved through the adoption and use of audit analytics software.

Summary

No organization is immune from the current economic challenges. These challenges have resulted in internal audit departments having to make do with fewer resources, yet fulfilling expectations to provide executive management and the Board with more insight into risks.

The use of audit analysis technology is the metaphorical vaccine that immunizes healthcare organizations from the risk of fraud, compliance failures and inefficiencies. As more audit professionals recognize the importance of audit analytics, they will reap the benefits that are readily available. Some may even implement continuous auditing to make their governance and audit processes more efficient and effective—similar to the actions taken by Memorial Health,

Bon Secours and PPH. In the process, they will transform their internal audit departments into valuable players, widely perceived by executives as key contributors to bottom line results. **NP**

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