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# Crowe Healthcare Summit 2019 Nurture Your Network Upskill. Connect. Grow.

## Top Operational Risks That Could Jeopardize Your Organization

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**Introducing Healthcare's  
Trusted Community:**

# The Crowe Hive Network



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# Your presenters



## Matthew Bowser

is a Principal in the Crowe Healthcare Risk Consulting practice with over 20 years of professional experience. Matt is a certified internal auditor and certified information system auditor. He is a frequent speaker/educator on topics ranging from improving internal audit departments to enhancing third party risk management.



## Eric Jolly

is a Vice President in the Crowe Healthcare Risk consulting practice with over 20 years of internal and external auditing, consulting, accounting, and hospital management experience. He has been engaged multiple times as a healthcare speaker on topics ranging from enterprise risk management, clinical audits and internal audit topics.



## Louise Garrett

is a Senior Manager in the Crowe Healthcare Risk Consulting practice with over 20 years of global leadership, fraud examination, quality assessment, internal audit, consulting, accounting and finance experience in Asia, Africa, Europe and North America. She is a frequent speaker on internal audit and consulting topics.

- How Crowe Identifies Top Risks
- Pharmacy
- Joint Venture Management & Oversight
- Third Party Vendor Management
- Financial Operations

# Agenda

# Learning Objectives

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At the end of this course, you should be able to:

- Define the five top healthcare operational risk areas
- Recognize common risks in each area
- Be familiar with audit steps and common issues related in each area

This discussion will provide a forum for participants to share their own experiences and challenges in these types of risk areas.





# Risk Overview

Top Operational Risks and  
how Crowe identifies top risks.

# Top Risk Identification Process

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# Pharmacy

Top Healthcare Risk #15



# Pharmacy – Overview

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Current environment – rapidly evolving and high inherent risks

- Opioid crisis and epidemic
- Strict record keeping and security regulations
- Differing state laws
- Limited span of control over clinical providers
- Billing risk high – unit of measure and modifiers
- Bioengineered, high cost pharmaceuticals

# Pharmacy – Common Risks

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- Staff access to opioids are not appropriately limited.
- Lack of accountability over DEA compliance.
- Inadequate medication management.
- Patient / staff addiction, death.
- Controlled substances go missing/black market.
- Lack of segregation of duties over controlled substances.
- Interfaces related to charging for drugs / 340B status do not function correctly.
- Non-compliance with federal/state/local laws and CDC recommendations.
- Lack of attention to drug interactions.
- Wrong drugs given to patient.
- MANY MORE...

# Joint Venture Management & Oversight

Top Healthcare Risk #14





# Joint Ventures - Overview

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Current environment – rapid partnerships and affiliations within the healthcare industry.

- In a time of low margins with limited capital available, this is a key growth strategy.
- Solution to population health – ambulatory – post-acute gaps in system of care.
- “Better to partner than to lose all of the profitable business/procedures to competition.”
- Bandwidth/competency to manage a needed business.
- Strategic investments in new business lines (supplies, devices, etc.)

# Joint Venture Management and Oversight – Common Risks

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- Damage to reputation due to:
  - Harm to patients as a result of not having a focused quality/safety function
  - Disagreement with partners
  - Non-compliance with federal/state regulations by partners
- Lack of complete financial control environment
- Lack of clinical quality assessments by partner
- Incomplete cyber security programs
- Lack of competency/bandwidth to effectively govern JV
- Lack of ability to influence decisions/recover investment in minority interests
- Governmental changes to payment models changes value of partnership/causes investment impairment
- Non-compliance with operating agreements

# Third Party Vendor Management

Top Healthcare Risk #9



# Third Party Vendor Management – Overview

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Current environment: Hospitals are using third party vendors for the following reasons:

- “Non-core” service of a health system
- All for increased executive focus on strategic health system goals rather than be distracted by an area
- Lack of ability to acquire local personnel to perform a function
- Third party has the experts to manage a function
- Third party has the technology to accompany the outsourced function

# Third Party Vendor Management – Common Risks

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- Service level agreements (and payment) are misaligned with organizational goals (but are aligned with the third party's goals)
- Agreement does not specify issue resolution processes
- Lack of agreed upon service level agreements
- Non-compliant billing by third party, which organization is responsible for
- Process is outsourced, but not the risk
- Expertise “sold” is not equal to that delivered (technology/qualified third party staff)
- Lack of accountability by organization outsourcing a process
- Lack of ability to control/influence quality over service delivered by third party

# Third Party Vendor Management – Common Issues

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- Policies and Procedures does not exist
- Payments are made to third party vendor without executed contracts, including contracts that have expired
- Service level agreements are not applied consistently
- Invoices are approved without review and comparison to agreement terms
- No third party vendor oversight and monitoring





# Financial Operations

Top Healthcare Risk #22

# Financial Operations – Overview

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As financial performance and reporting is a core component of any organization, it is typical to find strong management governance as follows:

- Formally defined key strategic objectives exist;
- Operational objectives associated with key strategic priorities are established and documented as part of the budgeting process; and
- Accounting/Finance departments with documented policies and procedures to address key controls. Policies and procedures are reviewed and updated periodically (annually at minimum) to reflect changes in accounting standards and requirements.
- Management oversight may be weak when embedded within a culture that places significant emphasis on meeting/exceeding budget and financial targets or when compensation is based upon the financial performance of the organization.

# Financial Operations – Common Risks

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- Fraudulent or unauthorized payments.
- Duplicate vendors in vendor file may result in improper payments.
- Invoices are paid more than once.
- Credits are not taken or refunded.
- Accounts Receivable balances are not properly valued and classified.
- Assumptions used in computing accounts receivable allowances are incorrect or outdated.
- Out-of-model adjustments may be used by management to recognize reserves that are not supported by appropriate documentation.
- Unauthorized or inaccurate transactions are recorded in the financial statements.
- Other receivables and asset accounts balances are not properly valued and classified.
- Accruals and other liability balances are not properly valued, supported or classified.



# Financial Operations – Common Issues

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- Inadequate training and supervision of finance/accounting department personnel resulting in errors and/or inefficient close processes.
- Manually intensive processes to gather and record transaction data resulting in inaccurate and/or delay of closing and reporting.
- Lack of monitoring account balances and comparisons of budget to actual resulting in errors that remain undetected and/or 'surprises' at year-end.
- Applications are not properly interfaced with the general ledgers resulting in incomplete and/or inaccurate data transfers.
- Inappropriate security access to financial systems and/or inadequate segregation of duties resulting in potential fraud.
- Unreconciled account balances and incomparable to the general ledgers resulting in errors that remain undetected.
- Inadequate Management and Governance oversight and review.
- Inaccuracies detected in Management's representation of financial results – inaccurate responses on checklists; Representation letters lacking information.

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# Thank you

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