

AHIA Auditing and Monitoring Framework – Seven Key Components

Author: Debi J. Weatherford – Director, Internal Audit & Corporate Compliance at Children’s Healthcare of Atlanta

Introduction

This publication was written in 2004 as a result of efforts by several individuals (referred to as the A&M workgroup) who realized that achieving effective and compliant health care functions cannot occur without auditing and monitoring processes. Auditing and monitoring processes serve as the bridge to integrate health care clinical and non-clinical departments and allow for addressing critical business functions and compliance issues. The following document reviews the need for auditing and monitoring based upon discussions with AHIA members and outlines the seven key components that will serve as an industry standard for the auditing and monitoring processes.

The A&M workgroup began to address the auditing and monitoring function by questioning what was needed in the health care arena to improve not only the internal auditor’s role but also non-functioning hospital processes as a whole. It was determined that there was a common dilemma within each person’s respective health care system that the clinical and financial areas did not communicate or work together, thereby creating difficult compliance challenges.

An illustration of such challenges is provided. 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 health care system (outpatient or inpatient services) and continues throughout the revenue cycle, which results in the issuance of a claim for service(s) rendered. Generally, clinical operations usually govern a patient’s medical services at the point they enter a health care 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 area is generating daily charges, no one is reviewing the final claim for appropriate charges. The patient financial services department is usually 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. Everyone in these areas has a specific function and duty within health care clinical and financial operations. There are usually a limited number of employees who can truly understand both components and are able to work towards integrating the clinical and financial functions.

By definition, the role of the internal auditor and compliance officer includes the ability to view and function in a hospital organization at a macro as well as a micro (departmental) level (also known as top down, bottom-up approach). Otherwise, neither position can do their job effectively. In recognizing this, the AHIA members determined that auditing and monitoring operations and compliance were two essential functions, as well as essential steps, in the OIG Model Compliance Guidance. Since neither the OIG nor the healthcare industry has consistently defined auditing and monitoring, the A&M workgroup determined that trained hospital internal auditors are most equipped to define these terms from a practical standpoint.

Consequently, the AHIA members defined the difference between auditing and monitoring in the context of compliance issues and not financial audits. Monitoring is a process involving ongoing “checking” to ensure quality control. The process of monitoring is less specific and structured than auditing and is typically performed by departmental staff. Monitoring involves daily or weekly spot checks to verify that essential functions are being performed and processes are working effectively. The process of monitoring can indicate the need for an audit. Auditing is a more methodical and structured approach to analyzing a control process. It is a formal review which usually includes sampling of data, testing of processes, validating information, identifying risk areas and lack of internal controls, and developing recommendations and corrective action measures.

7 Component Framework/Industry Standard for Auditing and Monitoring Processes

The A&M workgroup determined that auditing and monitoring as a cohesive process were essential but missing links in health care operations and the internal audit/compliance arena. The workgroup acknowledged that a common problem among their own health care systems was that there was not a defined framework to address and correct compliance related issues that were handled either by compliance auditors or internal auditors. The auditing and monitoring components as a joint process were lacking.

The outcome was a “seven component framework” for monitoring and auditing difficult compliance issues. The seven components do not always need to be addressed sequentially, but each component should be reviewed in the most appropriate sequence for the specific issue. It is hoped that this process will serve as a useful and effective tool to ensure compliance and assist in integrating various clinical and financial functions within health care systems.

It is important to note that we do not assume that one person will be able to do all of these 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.

1. Perform a Risk Assessment and Determine the Level of Risk

Risk assessment and ranking involves each organization's customized approach regarding how they view risk. Criteria guidelines can be developed to assist in ranking risk by assigning numerical values to risk likelihood and impact, and allowing for reductions based upon the assessment of internal controls that address the risk. It is important to assure consistency in the risk evaluation process.

Successful organizations have the ability to optimize the balance between risk and controls by increasing controls for high-risk areas. One way to manage risk is a process that continuously weaves risk identification and treatment into the organization's institutional knowledge and clarifies management's ownership and responsibility for assessing controls. Heightened control awareness helps the enterprise emphasize the importance of effective internal controls.

Once the risk for the area being addressed is rated and ranked, appropriate decisions can be made to determine the urgency of the situation, the level of scrutiny, and the application of the seven key components.

2. Understand Laws and Regulations Governing those Areas that will be Monitored and Possibly Audited

While seemingly obvious, this component is based on the premise that it is impossible to monitor and/or audit something if you don't know the rules governing a specific issue. Consequently, the first step is to ensure that management within your organization is knowledgeable of all rules, regulations, and guidelines mandated by federal and state laws that govern processes applicable to the business operations of your organization. This may include HIPAA, NCQA, JCAHO, or other applicable criteria, such as insurance contracts, etc.

3. Obtain and Establish Policies for Specific Issues and Areas, Define Accountability in the Policy, and Develop Procedures to Support the Policy

This step involves taking the law and incorporating the essential components of the law into a policy. In many areas, problems arise in understanding an issue because policies are vague and essentially state that it is the desire of the organization to comply with all applicable laws and regulations. Such policies do not educate departmental leaders and staff on how to comply with a specific area of the law, so many times it is left to their interpretation. It is important that policies define the "owner" or "accountable leader" as to ensure adequate compliance issues are addressed and correctly interpreted. An accountable leader could be the head of the department, the compliance officer, the CEO, etc.,

A policy may be broad enough to cover the entire operations of a health care organization. In some circumstances, such as a compliance program, a policy may have a procedure that also applies throughout the entire organization. For example, as part of an organization's compliance program, all hotline calls are monitored and investigated by the compliance officer.

In most circumstances, a procedure applies to identifiable departments and functions within that department. Procedures document how the department or staff implements the policy on a daily basis to ensure consistent actions by all employees. Detailed procedures provide a road map to guide you through the “how to” components of a process.

Policy and procedures development is typically not a responsibility of internal audit. It can be a responsibility of corporate compliance, though it is typically an operational responsibility. Emphasis should be placed on the accurate development of policies and procedures, as well as routine review and refinement.

4. Education on the Policy and Procedures

The adage that a compliance program should not be a document that appears on the shelf becomes a reality when a health care system fails to educate its employees and contractors on its policies and procedures. Under this step, the accountable leader of a policy should develop an education work plan to properly train staff members. This step is essential in integrating clinical and financial departments of a health care system and serves as an essential tool in reducing misinterpretation of a policy.

Too frequently, policies are developed without this step. When health care management responds to an investigator that they have had a long-standing policy on a particular issue, the investigator will interview employees regarding their knowledge, understanding, and implementation of a particular policy. Negative responses can raise a big red flag.

Education initiatives include classes, focus groups, presentations, on-line courses, on-line educational quizzes, etc. While education is not a responsibility of internal audit, internal audit may be involved in training relative to audit findings.

5. Monitor Compliance with Laws, JCAHO, Policies and Procedures

Monitoring tools should be developed for essential business functions (e.g. posting cash, billing and charging) as well as compliance issues (e.g. 72-hour window rule, medical necessity, duplicate billing, one-day stays and refunds). Daily or weekly monitoring plans should be made to aid the accountable leader in verifying that essential business functions are occurring timely, accurately, and consistently.

Monitoring processes can be done in a number of ways. Management reports, spreadsheets, spot checks, and interviews with department personnel are some examples.

- Management Reports: Queries may be done to create custom management reports, such as exception reports, to alert management of potential problems. These reports could be daily or weekly reports and should be reviewed by department staff members for appropriate corrective action. For example, overcharging insurance companies for observation services rendered. Most managed care contracts limit billable observation services to 23 hours and Medicaid (in many states) limits billable observation services to 48 hours. Billed hours in excess of these limits should be corrected.

- Spreadsheets: Spreadsheets can be placed on a network-shared drive, a database that many people may access via password protection. Spreadsheets can track and verify data integrity for specific issues such as tying payments that went through a lockbox to payments that were posted to Accounts Receivable. Tracking and validation between patient financial services and accounting can alleviate reconciliation issues at month-end.
- Spot Checks: Spot checks involve a person validating that an essential function was performed. A spot check can include a review of the medical record to verify that billed charges for clinical services match the clinical documentation. Another example of a spot check is testing the x-ray log by validating that a charge appears on the bill for patients listed on the log.
- Interviews: Interviews can be conducted by telephone or in person. They involve asking a person a question about an issue or process to determine if that person truly understands it and how they or their department are implementing the process. If problems have existed in the past regarding an issue or process, the interviewer should document the name of interviewee, date, time, and summarize the statements made.

Once the monitoring tools are developed, it is important that such tools are routinely reviewed to determine whether they are effective. The effectiveness of a monitoring tool should address the questions of whether problems are being identified, are there other areas that need to be monitored and are corrective action measures occurring once an issue is identified. Monitoring results should be reported to the Compliance Officer (or designated person) so that they can be evaluated and trended over time. If trending patterns began to show a negative impact on operations, a risk assessment should be performed to determine the need for future internal audit activity. Please be aware that internal audit activity may occur with or without current monitoring activity.

Step 6. Audit

An audit is performed by someone outside the department who is independent as well as objective regarding an issue or process that will be audited. An audit is a formal, methodical review which usually includes sampling of data, testing of processes, validating information, identifying risk areas and lack of internal controls, and developing recommendations and corrective action measures. The tool used to complete an audit is a written audit program with agreed upon procedures and timelines. The outcome of an audit is typically a written report outlining findings and recommendations, and incorporating management's responses.

It is essential for any individual developing an audit program to work with his/her in-house or outside counsel to determine if the audit should be conducted under the attorney-client privilege. This will affect the manner in which your audit program is drafted and the people to whom the results are disseminated.

Each audit should be conducted in accordance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. A typical audit methodology is:

1. Prepare a mission statement for the audit
2. Determine if the audit should be conducted under the attorney client privilege
3. Define the issue
 - Define how the issue relates to hospital operations
 - Determine how the issue relates to OIG work plans or other areas of law
4. Define the scope and time lines
 - Determine time lines
 - Identify documents to review
 - Identify knowledgeable and accountable parties to interview
5. Develop the audit program or work steps you will follow - include statistical analysis and fraud detection methodologies
6. Conduct the audit and evaluate internal controls
7. Summarize the findings and communicate these to management
8. Obtain management's response and develop the corrective action plan
9. Communicate audit findings and corrective action measures to Senior Management and/or the Board of Directors
10. Determine next steps
 - Expand audit
 - Rely on monitoring measures
 - Perform a sample audit in the future
 - Follow government audit mandates

7. Re-educate Staff on the Law, Policies and Procedures, Issues Found in the Audit, and Corrective Action Measures

Education and re-education is an essential element to ensure compliance and consistent staff performance. Findings in an audit of non-compliance frequently cannot be corrected without a measurable re-education process. Education and re-education should be a continuous process and not a single event. Educational initiatives should be focused and geared toward teaching one or two issues in depth. Too much information at one time decreases attention span and retention ability.

Education components should be emphasized as part of the annual goal setting process for each department as well as its employees. It should also be part of each employee's job description. All educational initiatives should be documented. It is essential that employees understand the issues underlying the "seven key components" in order to hold them accountable. It is also important that education be a two way process in which feedback is encouraged and acted upon.

The preceding seven component framework creates a systematic approach that enables organizations to achieve industry best practice standards in addressing complex compliance issues in a manner that can be useful for hospital management teams, internal auditors and compliance officers. This methodology will be applied to areas such as physician contracting, EMTALA, 72-hour compliance, revenue cycle, inpatient/outpatient/observation services, and HIPAA to provide a comprehensive reference guide developed by AHIA members.

About the A&M Workgroup

The next focus of the A&M workgroup will be to apply the seven component framework to physician contracting.

Members of the A&M workgroup are:

Randy Langenderfer, University Hospitals Health Systems, Cleveland, OH,

Randy.Langenderfer@uhhs.com

Glen Mueller, Scripps Health, San Diego, CA, Mueller.Glen@scrippshealth.org

Kelly Nueske, Allina Hospitals & Clinics, Minneapolis, MN, Kelly.Nueske@allina.com

Mark Ruppert, Cedars-Sinai Health System, Los Angeles, CA, RuppertM@cshs.org

Debi Weatherford, Children's Healthcare of Atlanta, Atlanta, GA,

Debi.Weatherford@choa.org