Continuous Auditing Enhances Controls and Compliance

Techniques to strengthen compliance controls and maximize resources

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Increased financial pressure demands that healthcare organizations evaluate their resources, including those allocated to internal audit. Continuous auditing can support healthcare organizations' efforts by assessing and stabilizing financial and compliance controls. In the healthcare setting, specific areas of high risk lend themselves to continuous auditing. Organizations that have implemented continuous auditing in those areas have achieved positive results.

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At its most basic level, continuous auditing is a frequent assessment of operational, compliance and financial controls and risks, often using automated data analytics. Since emerging in the early 1990s, continuous auditing has become an established method in the internal auditing field.

Continuous auditing can be linked to the development of robust data analytics. These tools have all but eliminated the laborious manual gathering of information. In many industries, a heightened need for risk management has added to the increased adoption of continuous auditing.

Furthermore, continuous auditing has gained momentum for its compelling benefits. Rather than testing a sample periodically, continuous auditing typically allows the testing of 100 percent of transactions continually. Auditors then can identify vulnerabilities in near real time, begin remediation and avoid long-term negative consequences from exceptions. Continuous auditing creates a consistent control environment and frees resources for other, more complex audits.

Continuous auditing versus continuous monitoring
Even within the auditing community, the terms continuous auditing and continuous monitoring often are used interchangeably. Although the distinction may seem subtle, they are separate concepts.

Both continuous auditing and continuous monitoring identify and assess the effectiveness of processes and controls. However, process managers own continuous monitoring, whereas auditors own continuous auditing. This difference underlies another significant benefit of continuous auditing.

In continuous monitoring, oversight can be subject to the bias and interpretation of process owners, who are operationally invested. With continuous auditing, auditors maintain ownership. They can offer independent, objective

analyses of processes and remediation, as well as analyses of management's continuous monitoring activities.

In an enterprise-wide risk management strategy, many organizations view continuous monitoring as the first two levels of defense. On the first level, business process owners maintain the controls that those on the second level of defense—the organization's standards setters—establish in the context of policy.

An additional line of defense is continuous auditing, and its purpose is to provide independent assurance that the entire audit function is producing results to benefit the enterprise's larger goals.

Continuous auditing implementation

Every industry and organization differs in how continuous auditing is implemented. However, regardless of the setting, several steps are essential.

Conduct a traditional baseline audit – A baseline audit will identify control deficiencies. Management then can make improvements and implement the continuous monitoring process. During this time, auditors can become better acquainted with the process owners who will receive audit deliverables.

Delineate continuous auditing testing – At this stage, auditors should identify which areas will be tested and under what rules. After those rules are finalized, frequency of the continuous auditing process should be determined. The operational cycle of the process being audited as well as related regulatory guidelines usually determine the timing.

Access data – Auditors will need to determine how the necessary audit data will be accessed. Has the audit staff been given rights to directly download, or is there a protocol for data transfer between hospital IT staff and the internal audit team?

Establish guidelines for remediating exceptions – Exceptions identified by the continuous auditing tools are reported

to audit staff for review and validation. Part of that process requires collaboration among operational process owners for resolution. Clear guidance should be maintained as to what role internal auditors and managers play.

Report to senior-level leadership – Auditors should report overall results and trends to high-level executives within the organization as well as its audit committee.

By taking these steps, the entire organization—including staff, management, auditors, senior leadership and governance—will be able to tap into continuous auditing's potential for providing financial and regulatory assurance.

Continuous auditing in healthcare

Given the dynamic nature of today's healthcare system, continuous auditing is an especially powerful approach. Healthcare organizations process large volumes of complex transactions daily. This creates numerous financial and regulatory vulnerabilities. When exceptions are not isolated and addressed swiftly, the consequences can be devastating.

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Ever-increasing financial pressures on healthcare organizations demand that they maximize the efficiency of their resources. Continuous auditing can support that aim by streamlining the audit processes and stabilizing controls. It also frees clinical staff to focus on patient care and the myriad challenges surrounding its delivery.

In healthcare organizations, the following risk areas are ideal candidates for continuous auditing.

Three-day payment window testing

For patients with Medicare Part A coverage, nonprofessional outpatient services provided to a beneficiary within three days prior to the date of an admission should be included in the inpatient claim. Inaccurate outpatient claims can lead to billing errors and the need to self-report noncompliance and refund overpayments.

When healthcare organizations provide services in locations beyond the hospital campus, they are challenged to link outpatient services to inpatient claims. In many cases, controls in these scenarios are weak.

Through continuous auditing, compliance risks can be mitigated. Patient names, dates of birth and social security numbers can be matched via data analytic tools with clinic and hospital charge files.

This process is especially effective because the risk of billing errors is covered on an ongoing basis. Even with management turnover, continuous auditing can provide assurance that controls remain robust.

One large acute care facility with numerous related outpatient clinics had no internal mechanism to monitor or address the three-day rule. After implementing continuous auditing, the organization now typically identifies seven to eight encounters that should be bundled with the inpatient bill each month.

Accounts receivable hindsight analysis

Given the constant changes to the healthcare landscape, healthcare organizations face significant increases in bad debt and charity care. This can make it difficult to estimate accurately the valuation of accounts receivable (AR). Continuous auditing can improve consistency, transparency and accuracy in the AR valuation process.

Data analytic tools can examine historical AR valuation activities and compare actual payment, adjustment and write-off transactions for a given period to the reserves booked against the same AR.

Typically performed on monthly AR 'snapshots' and monthly extracts of detailed transactions, the continuous auditing process helps to identify trends and generate bad-debt matrices, and allows the audit team to evaluate current AR reserve estimates. These views of historical information are a crucial component in managing AR valuation.

Exhibit 1 illustrates the results of one real-world example. Continuous auditing performed annually in a large Midwestern hospital mitigated historical under-reserves for bad debt, charity and contractual allowances. In the earlier years the under-reserves in the allowances resulted in an overall overstatement of net AR balances; as management responded to the continuous auditing results by increasing reserves, the net AR came more in line with projected receipts.

Revenue charge capture

No hospital can afford to lose reimbursement dollars because of poor controls over the charge capture process. Continuous auditing can help in managing the risk of revenue leakage by using charge capture tests performed at intervals ranging from daily to quarterly to annually. To perform these tests, data analytic tools incorporate billing information received through automated interfaces.

Through continuous auditing, auditors can monitor the revenue cycle process and then assess whether charge capture controls implemented by management are working effectively and consistently.

Using continuous auditing to capture potential lost revenue gives healthcare organizations more time for value-added analysis instead of error correction. It also reduces margin erosion.

For example, one health system internal audit implemented daily continuous charge capture audits of its emergency, interventional radiology and observation departments. In those three departments alone, annualized potential missed charges totaled more than $11 million.

Excluded provider screening

All healthcare organizations are obligated to screen employees, contractors and vendors to find those excluded

Exhibit 1 – Sample results of continuous auditing				
	2010	**2011**	**2012**	**2013**
Net AR per continuous auditing	$34,600,000	$36,400,000	$52,000,000	$50,100,000
Net AR on books	$45,700,000	$45,700,000	$53,992,000	$47,100,000
Net AR overstated/ understated	$11,100,000	$9,300,000	$1,992,000	($3,000,000)

from participation in federal healthcare programs. Meeting this obligation promotes regulatory compliance, helps hospitals avoid sanctions, and most importantly, keeps their patients safe.

The Centers for Medicare & Medicaid Services (CMS) advises that states require healthcare organizations to search the List of Excluded Individuals and Entities from the U.S. Department of Health and Human Services Office of Inspector General (OIG) on a monthly basis. In addition to monitoring the OIG's list, a continuous auditing process can scan the U.S. Social Security Administration's criteria and Death Master File matches to check for cases of identity theft.

The continuous auditing exclusion monitoring solution makes it simple to upload employee, vendor, contractor and physician data for testing each month, and it checks the most recent lists from the OIG, the U.S. General Services Administration and (where available) state Medicaid agencies. This continuous auditing process also can result in more efficient reporting and storage of automated matching results as well as investigation and resolution activity.

Regulatory billing and coding compliance
Government integrity programs look at provider claims data for improper billing and payments. Data mining activities are accelerating efforts to give CMS new ways to identify potential Medicare and Medicaid fraud and abuse.

The stakes are high. Not only do providers risk losing legitimate revenue, but violations of the False Claims Act could result in a requirement to pay the federal government three times the amount of actual damages sustained by the government and civil penalties of between $5,500 and $11,000 for each false or fraudulent claim.

Implementing continuous auditing in this area gives providers more control over and greater insight into organizational performance. It detects potential issues before they become errors that require self-reporting and repayment.

For example, data analytic tools can use billing and payment data to identify coding and billing vulnerabilities. Such continuous auditing analytics can group similar claims and identify process breakdowns efficiently. Fixing those processes fixes future claims, and continuous auditing will identify potential future exceptions when controls break down.

Duplicate payment testing
Duplicate payment errors are preventable losses that deplete scarce resources. Whereas most new accounts payable (AP) systems have some edits to control duplicate

payments, most are not sophisticated enough to catch "fuzzy" or near duplicates. Continuous auditing can be employed to screen for true duplicates and "fuzzy" or near duplicates, thus supporting an organization's goal to recoup past payments and improve controls to prevent similar errors in the future.

For example, using analytic software, auditors can access AP data, conduct an assessment for duplicates and generate exception reports. The errors identified in those reports are remediated by the process owners.

Another example is found with a health system in the Southeast that used continuous auditing to identify annualized potential duplicate payments of more than $600,000. Another system in the Northeast found nearly $300,000.

Succeeding with continuous auditing
Several factors can enhance continuous auditing efforts. Those include:

- *Senior leadership support* – For continuous auditing to be successful in a healthcare organization, senior leadership must support the value of continuous auditing activities so that auditors have necessary access to the right data, technology and human resources.

- *Analytic tools and logic* – The internal audit team and tools should be dynamic so testing can be refined, expanded and customized. The team's proficiency in data analytic tools and techniques also will contribute to success.

- *Process ownership* – Subsequent to identifying errors with continuous auditing, process owners must be engaged so that they fix errors that produce exceptions and are willing to enhance controls going forward.

- *Constant training and education* – Before continuous auditing can begin, the auditors must have a solid understanding of current processes and systems. Because of personnel turnover and ongoing changes to regulations, the organization's audit approach, including testing rules, should be reviewed and updated regularly.

Conclusion
The ever-increasing financial and regulatory pressures in the healthcare industry call for healthcare organizations to maximize the efficiency of their audit resources. The use of continuous auditing can support this by streamlining audit processes to assess and enhance financial controls and compliance with federal and state regulations. **NP**