Cleveland Clinic and Enterprise Risk Management: *From Compliance to a Strategic Tool*

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Today’s Discussion Topics

• ERM in the Healthcare Industry

• Practical Approach to Starting your ERM Journey

• ERM At Cleveland Clinic
  – Planning & implementing an ERM program
  – Linking ERM to strategy & objectives
Risk Management in a Healthcare Organization from “Top to Bottom”

- Risk in the Board Room
- Risk in Management Decision Making
- Risk in Operations
  - Research
  - Clinical Quality
  - Compliance
  - Operations
  - Technology/IT
- Risk in Strategic Initiatives, and Transformation Projects
  - EMR Implementation
  - HiPAA and ICD 10
  - Care System Redesign

ERM Program

Risk information as part of management reporting

Risk considered and monitored for each initiative
Questions to ask

- Does your ERM initiative provide appropriate level and timely risk information that conveys risk in the business and level of mitigation?

- Does your executive team use consistent approach to considering strategies or opportunities and the associated risk? Are alternatives or exposures discussed as part of decision making?

- Are top risks tied to Strategic direction and initiatives?
Questions to ask

- Is risk information or associated metrics used as part of every day management information? Is the risk information used consistently across organization and tied to strategic level?
- Is risk information or associated metrics used as part of every day management information? Is the risk information used consistently across organization and tied to strategic level?
Questions to ask

- Are the only risks discussed and reported in for your strategic initiatives, the project related ones (on time, on budget)?
- What about business risks that evolve as the implementation progresses such as drain on resources etc?
Current Healthcare Industry Risk Trends
Practical Approach to Starting your ERM Journey

Start by Creating Content

Then Create the Process

ERM Framework

<table>
<thead>
<tr>
<th>Framework Element</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Governance</td>
<td>Establishment of approach for developing, supporting, and embedding the risk strategy and accountabilities</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>Identifying, assessing, and categorizing risks across the enterprise</td>
</tr>
<tr>
<td>Risk Quantification &amp; Aggregation</td>
<td>Measurement, analysis, and consolidation of enterprise risks</td>
</tr>
<tr>
<td>Risk Monitoring &amp; Reporting</td>
<td>Reporting, monitoring, and assurance activities to provide insights into risk management strengths and weaknesses</td>
</tr>
<tr>
<td>Risk &amp; Control Optimization</td>
<td>Using risk and control information to improve performance</td>
</tr>
</tbody>
</table>

Creating Content
Identifying, evaluating and prioritizing enterprise risks

Creating Process
Building and maintaining a dynamic risk management framework and process to achieve sustainability
ERM at Cleveland Clinic

• **Planning & Governance**

• Initial - Top Risk Assessment

• Implementation – Detailed Risk Assessment

• Modifications
ERM at Cleveland Clinic (cont.)

Governance Structure

Board of Directors

CEO Council

ERM Steering Committee

ERM Working Team

Continuous Improvement

Financial Planning

Internal Audit

Strategic Planning

Membership

Operations
Cont. Improvement
Accounting
Physician 1
Risk Management
Legal
Internal Audit
Physician 2
ERM at Cleveland Clinic (cont.)

Risk Profile – example risks

The risks considered in ERM are not just operational risks

- Strategic
  - Cost Structure
  - Joint Ventures

- External
  - Economic Risks
  - Competition

- Financial
  - Capital Planning
  - Investments

- Operational
  - Clinical Quality
  - Patient Safety

- People
  - Succession Planning
  - Performance Management

- Compliance
  - Information Security
  - Regulatory Compliance

REPUTATION AT RISK
ERM at Cleveland Clinic

• Planning & Governance
• *Initial - Top Risk Assessment*
• Implementation – Detailed Risk Assessment
• Modifications
ERM at Cleveland Clinic (cont.)

Top Risk Profile

**Strategic**
- Ability of Business Model to Respond
- M&A and Affiliations Consistent with Strategy and Culture

**External**
- Impact of Healthcare Reform
- An Extended or Limited Economic Recovery Nationally and/or in Northeast Ohio

**Financial**
- Physician Relationships & Contracting
- Maintenance of High Level of Clinical Quality & Safety
- Maintenance of Environmental & Operational Safety
- Prioritization of Initiatives & Ability to Address Opportunities and Challenges

**Operational**
- Maintaining Cultural Consistency
- Training and Succession Planning

**People**
- Increased Regulatory Compliance
- Protection of Patient Information

**Compliance**

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**REPUTATION AT RISK**
ERM at Cleveland Clinic (cont.)

Initial Top Risk Assessment

- 135 Risk Components
- 24 Sub Risks
- 7 Top Risks
ERM at Cleveland Clinic

- Planning & Governance
- Initial - Top Risk Assessment
- Implementation – Detailed Risk Assessment
- Modifications
## ERM at Cleveland Clinic (cont.)

### Initial Top Risk Assessment – Program Timeline

<table>
<thead>
<tr>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
<th>Phase IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Initial Risk Identification &amp; Assessment</td>
<td>Develop Program &amp; Structure</td>
<td>Perform Detailed Assessment &amp; Implement Change</td>
</tr>
</tbody>
</table>

- **2010**
  - Q1: Risk Environment Assessment
  - Q2: Top Risk Prioritization
  - Q3: Define ERM Program Structure
  - Q4: Perform Assessments

- **2011**
  - Q1: Develop Mitigation Plans
  - Q2: Implement Mitigating Activities
  - Q3: On-Going into 2013

- **2012**
  - Q1: Audit Cte / BOD Update
  - Q2: CEO Council / ET Update

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# ERM at Cleveland Clinic (cont.)

## Risk Assessment (Deep Dive at an Individual Risk Level)

### Sub-Risk:

<table>
<thead>
<tr>
<th>Sub-Risk Components:</th>
<th>Response Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance:</td>
<td>Current Risk Response Mitigation Activities:</td>
</tr>
<tr>
<td>Executive Sponsor</td>
<td>Components Mitigated:</td>
</tr>
<tr>
<td>Risk Owner</td>
<td></td>
</tr>
<tr>
<td>Committee Oversight</td>
<td></td>
</tr>
<tr>
<td>Strategic Initiatives</td>
<td></td>
</tr>
<tr>
<td>• Potential Impacts to CC:</td>
<td></td>
</tr>
<tr>
<td>• Risk Indicators:</td>
<td></td>
</tr>
</tbody>
</table>

### Impact vs Likelihood Heatmap:

- **Critical**
- **Major**
- **Moderate**
- **Minor**
- **Insignificant**

- **Remote**
- **Unlikely**
- **Moderate**
- **Likely**
- **Almost Certain**

The heatmap represents the likelihood and impact of various risks, with green indicating a lower likelihood and impact, and red indicating a higher likelihood and impact.
Executive Leadership restructure focused on responding to health reform. Launched Value Based Care (VBC) team. Some risks will need to be reassessed with changes to strategy.

<table>
<thead>
<tr>
<th>Highest Risk Areas (selection from all risk components)</th>
<th>Status</th>
<th>Mitigating Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing an operating and decision structure with clear responsibilities and authority</td>
<td>Developing Plan</td>
<td>Executive leadership has recommended cross functional structure</td>
</tr>
<tr>
<td>Inadequate strategy to support the shift of self pay population to Medicaid; greater utilization and lower reimbursement</td>
<td>Developing Plan</td>
<td>Medicaid Team to develop plan. Will align with strategy.</td>
</tr>
<tr>
<td>Potential negative impact to volumes and/or margins due to state’s restructuring of managed care (i.e. exchange impact)</td>
<td>Developing Plan</td>
<td>Preparing insurance exchange and transparency strategy</td>
</tr>
</tbody>
</table>
ERM at Cleveland Clinic

- Planning & Governance
- Initial - Top Risk Assessment
- Implementation – Detailed Risk Assessment
- Monitoring & Modifications
ERM at Cleveland Clinic (cont.)

Create, then sustain the momentum

- Risk Identification & Assessment
- Detailed Risk Analysis
- Embed Risk Management in the Business
- Monitoring and Reporting
- Mitigation and Response

- 50 management interviews
- Analysis of comparable industry risks
- Validation with Steering Committee

- AC Reporting
- Periodic refreshes
- Physician involvement
- Link to CC objectives

- Develop work groups
- ERM timeline
- Work group training
- Work group reporting structure
Ongoing ERM Challenges

• Resources
• Organizational changes
• Communication
• Ongoing engagement
• Quantifying results
• Linkage
  – Financial Planning
  – Strategy
  – Continuous Improvement
Key Steps to Consider
As you embed risk management in the business

1. Develop Risk Management Framework & Process
   - Risk Identification & Assessment
   - Risk Analysis
   - Monitoring and Reporting
   - Mitigation and Response
   - Embed Risk Management in the Business

2. Develop a Risk Governance and Monitoring Process
   - Executive Level
     - Top Risks to the Enterprise
   - Functional and Department Level
     - Significant Risks by Function
     - Significant Risks by Project
   - Process
     - Sub risks
     - Sub risks
     - Sub risks

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Key Steps to Consider
As you embed risk management in the business

3. Embed and Enhance Risk Management Activities

4. Establish Risk Culture and Behavior through Training

Risk and Mitigation Information

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation Information</th>
<th>Impact Rating</th>
<th>Likelihood Rating</th>
<th>Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Mitigation / Controls 1</td>
<td>6</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>High</td>
<td>Mitigation / Controls 2</td>
<td>8</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Low</td>
<td>Mitigation / Controls 3</td>
<td>2</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Low</td>
<td>Mitigation / Controls 4</td>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
</tbody>
</table>

Risk: High
Mitigation: None
Impact: Critical
Likelihood: Very High
Risk Score: 20

Risk: Medium
Mitigation: Mitigation / Controls 1
Impact: High
Likelihood: High
Risk Score: 16

Risk: Low
Mitigation: Mitigation / Controls 2
Impact: Low
Likelihood: Low
Risk Score: 8

Risk: Very Low
Mitigation: Mitigation / Controls 3
Impact: Very Low
Likelihood: Very Low
Risk Score: 4

Risk: Negligible
Mitigation: Mitigation / Controls 4
Impact: Negligible
Likelihood: Negligible
Risk Score: 2
Thank You