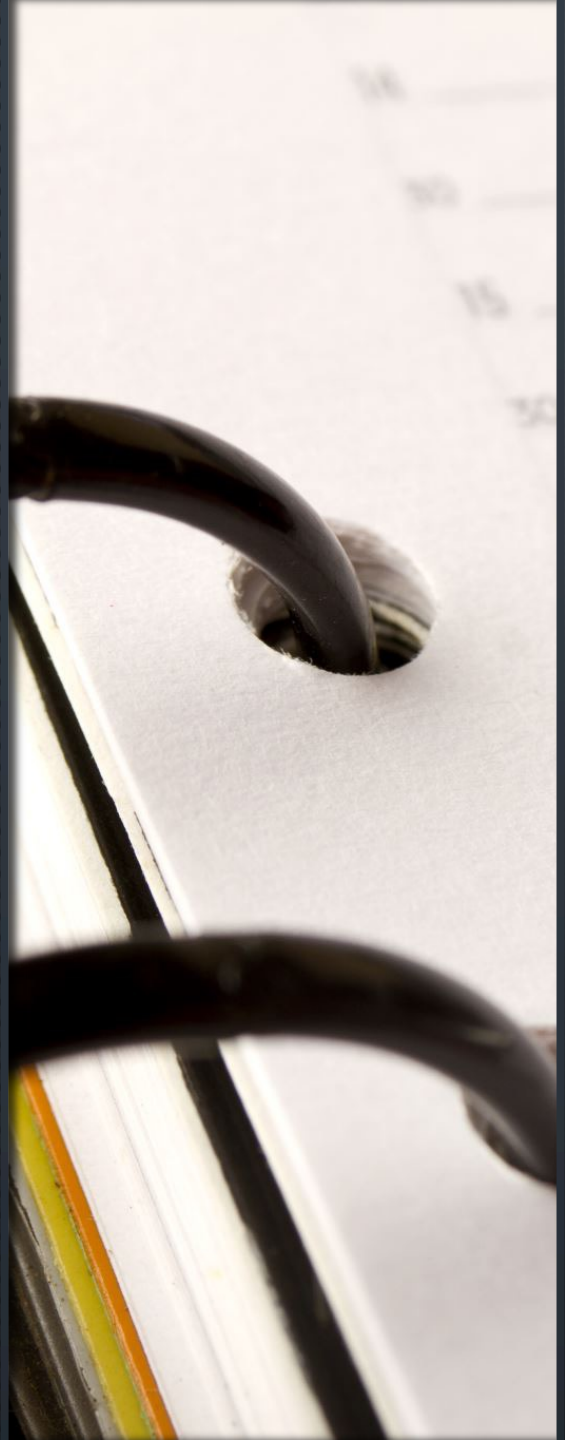
ROLE OF FINANCE IN

HEALTHCARE RISK MANAGEMENT



AGENDA

- Introduction
- Risk Organization Hierarchy
- Risk Management Three Lines of Defense
- Roles of CFO & Controller in Risk Management
- Role of Finance in the Risk Lines of Defense
- The Integrated GRC Model
- Key Risk Indicator Indicator Report
- Conclusion

INTRODUCTION

Goal of Risk Management

Minimize, monitor, and control the probability and impact of unfortunate events

Maximize the realization of opportunities

INTRODUCTION

Question

What is the **ultimate** cost of not managing healthcare risks?

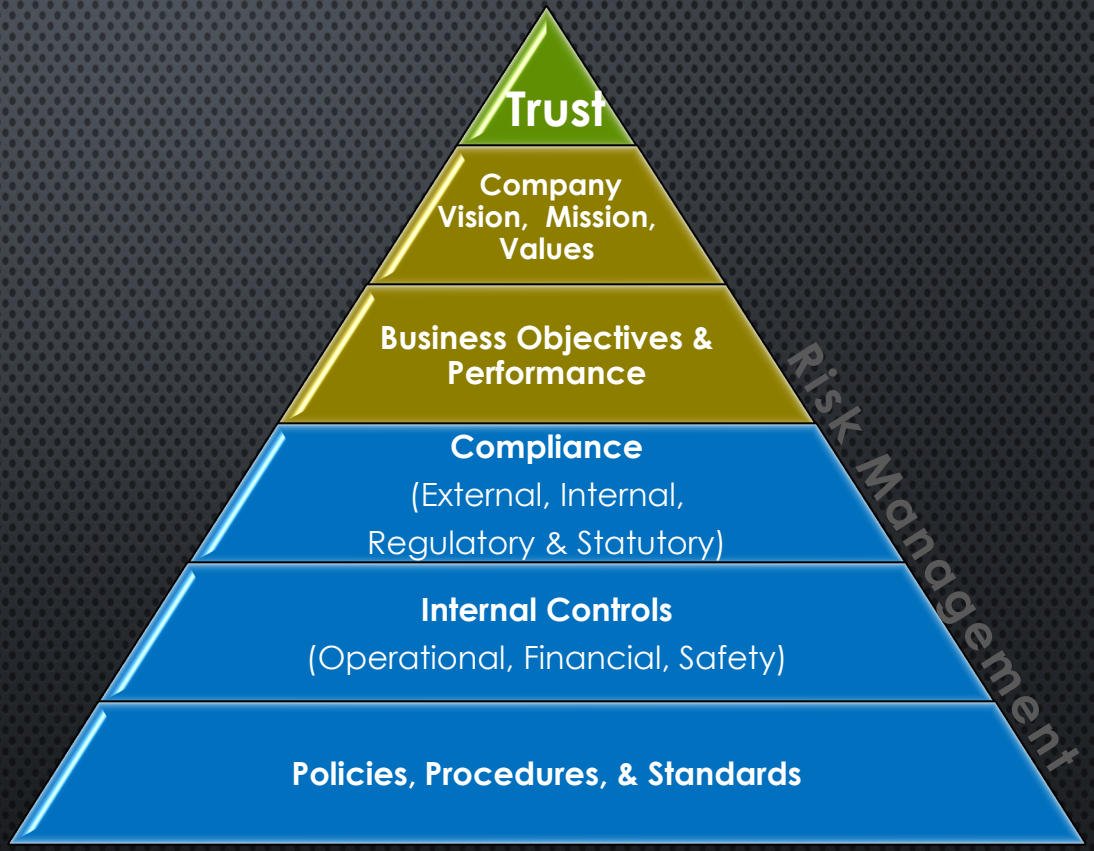
INTRODUCTION

Answer

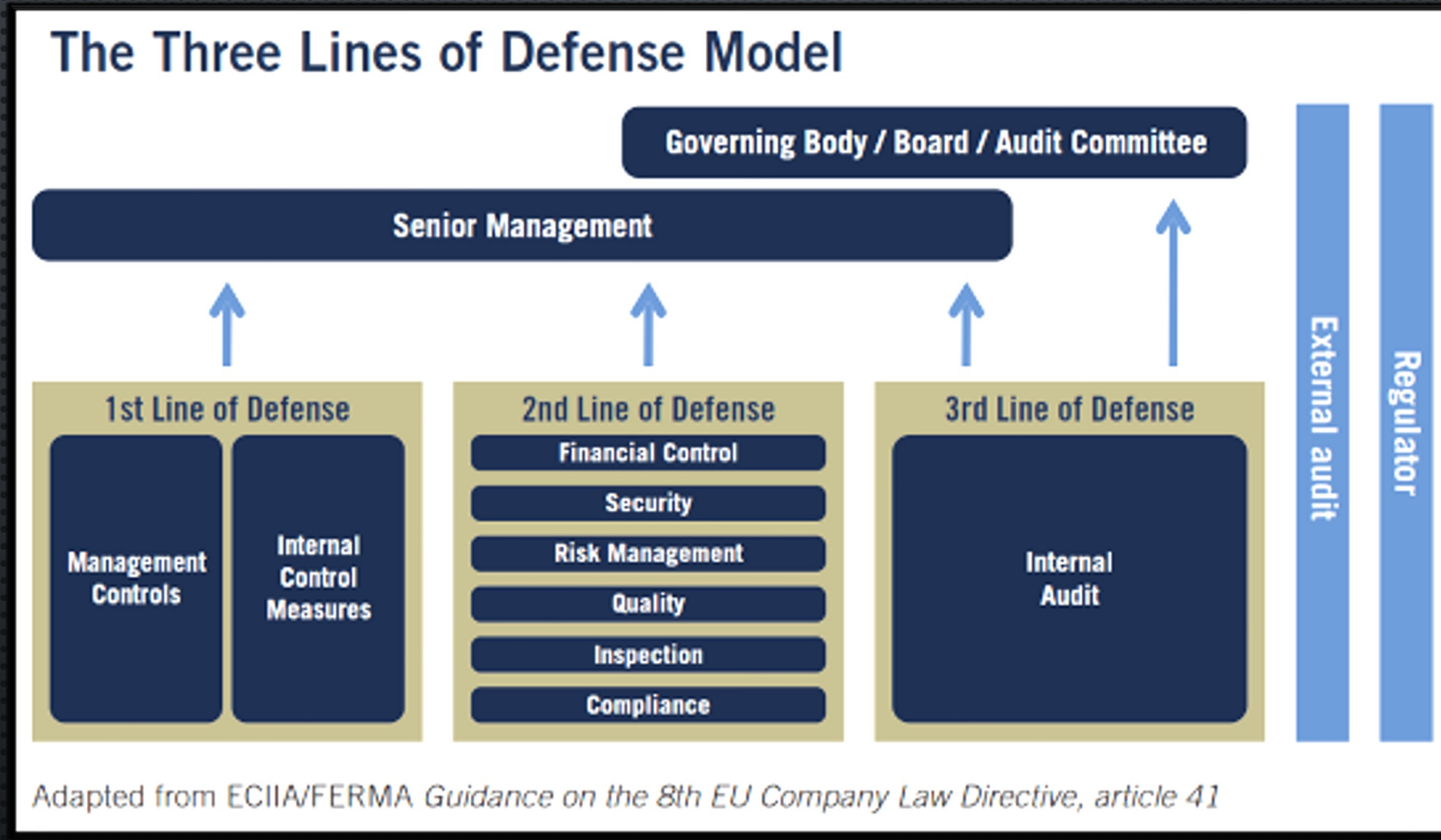
Erosion of patient, member, and community trust

RISK ORGANIZATION HIERARCHY

The bottom two layers are crucial to building an effective risk management program



RISK MANAGEMENT THREE LINES OF DEFENSE



RISK MANAGEMENT THREE LINES OF DEFENSE

Question

1. Who is responsible for identifying risks?
2. Who is responsible for assessing & monitoring risks?
3. Who is accountable for risks?
4. Who ultimately owns risks?

RISK MANAGEMENT THREE LINES OF DEFENSE

Answer

1. All Lines of Defense share responsibility for identifying risks
2. Second Line of Defense is responsible for assessing & monitoring risks
3. First Line of Defense is accountable for risks
4. The Board ultimately owns risks

ROLE OF THE CFO & CONTROLLER IN RISK MANAGEMENT

The CFO & Controller responsibilities are spread across the first and second lines of defense, and at the senior leadership level

The CFO also collaborates with senior leadership to fund prioritized risk mitigating initiatives

- Strategy monitoring & forecasting
  - Program initiatives
  - Risk performance
- Investment & debt risk monitoring

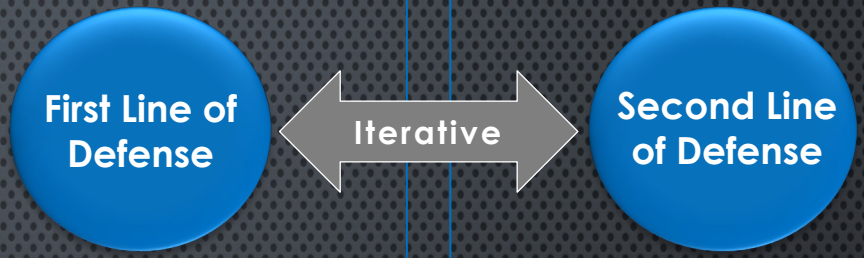
- Financial reporting
- Billing, receipts & payments
- Tax compliance
- Financial policy

- Asset protection
  - Asset reconciliation
  - Cashflow management
- Controls design & monitoring
- Compliance monitoring

- Business Performance
  - Budgeting
  - Financial analysis
  - Cost improvement & control

ROLE OF FINANCE IN THE RISK LINES OF DEFENSE

Best practice suggests that the First and the Second Lines of Defense activities should be more iterative and require less independence



Roles

- Process owners, with responsibility to own and manage day-to-day risks activities
- Design, operate, and implement controls

Functions & Processes

- Revenue Cycle Operations
  - Medical claims
  - Medical AR management
- Controller
  - Cash management
  - Revenue & Disbursement accounting & reporting
- Supply Chain Operations
  - Supplies procurement & receiving
- 3rd Party Contracting

Roles

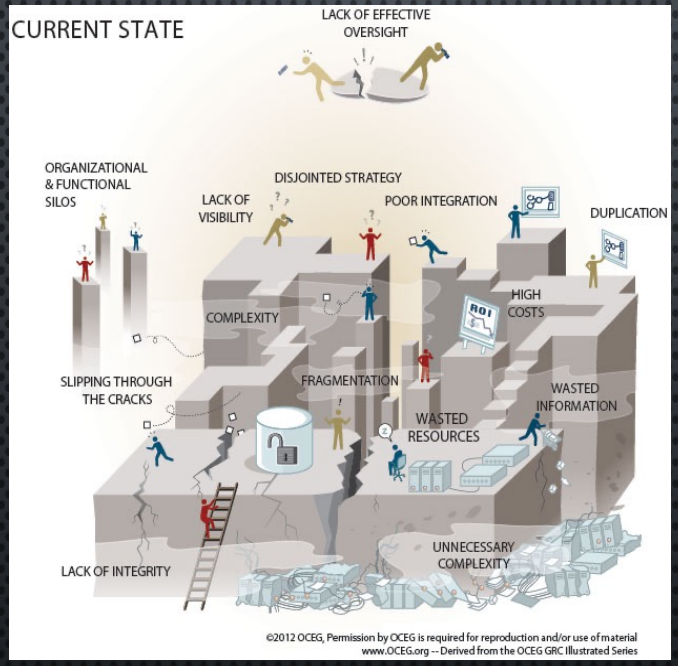
- Emerging risk identification
- Financial controls & compliance assessment & monitoring
- Financial governance & oversight over policies; financial controls framework, tools, & techniques

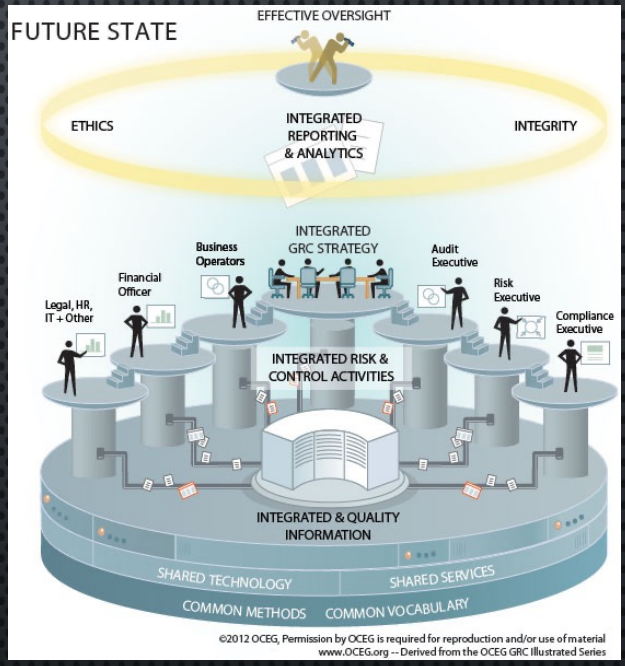
Functions & Processes

- Controller
  - Financial Governance
  - Financial/SOX Compliance
  - Fraud, Waste, & Abuse auditing
  - Budget control
- Financial Analysis
  - Financial & cost analysis
  - Financial forecasting

THE INTEGRATED GRC MODEL

OCEG's future state model outlines an iterative structure that enables the achievement of "principled performance"





OCEG risk management performance model. Future state structure is illustrative and should be modified to align with each company's size, complexity, business model, and values.

KEY RISK INDICATOR REPORT

Risk activities in the upper right quadrant of the report are prioritized in funding decisions for mitigation

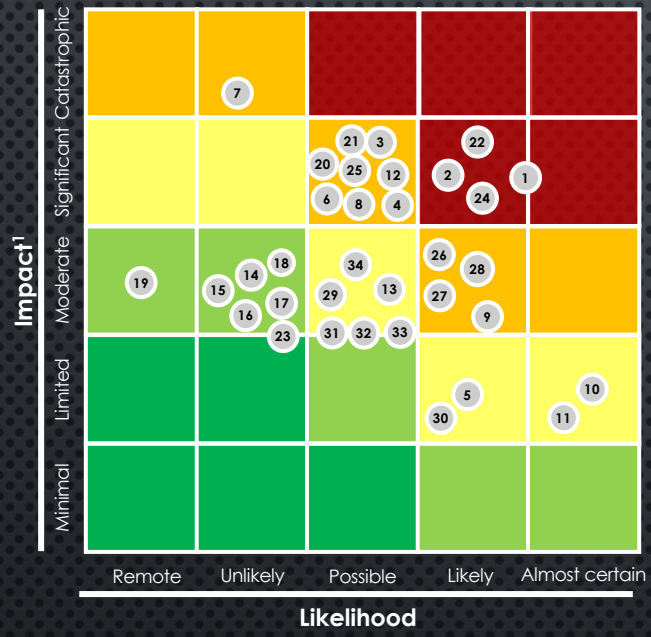
1. Report is a summary of potential risks a company may face – based on analysis

2. **Critical** risks with potentially severe consequences

3. **Emerging** risks that may become problematic in the future if not monitored closely

4. **Six risk domains**
   Strategic; Financial; Human Capital; Information Technology; Operational; Regulatory Compliance

KEY RISK INDICATOR REPORT (EXAMPLE)



[1]Impact includes direct financial loss, legal fees, regulatory fines, losses from reputation damage

Strategic

1. Revenue sources highly concentrated & not diversified; other funding sources have not been cultivated
2. New competitors (domestic & foreign), vertical or horizontal expansion of existing healthcare purveyors into health business lines; new entrants developing healthcare technology
3. Ability of the existing business model to support exponential growth, sustainability & flexibility of the business model over the long-term, sustainability of service model of key subsidiaries.
4. Increasing pace of change both (micro & macro) in new clinical protocols, outcomes, delivery models etc.
5. Significant changes in the Health Provider Network - size, ownership, new certification/licensing requirements
6. Company information is communicated externally without proper review & approval; policy, procedures, and protocols are inadequate to manage negative impact of unauthorized external communications

Financial

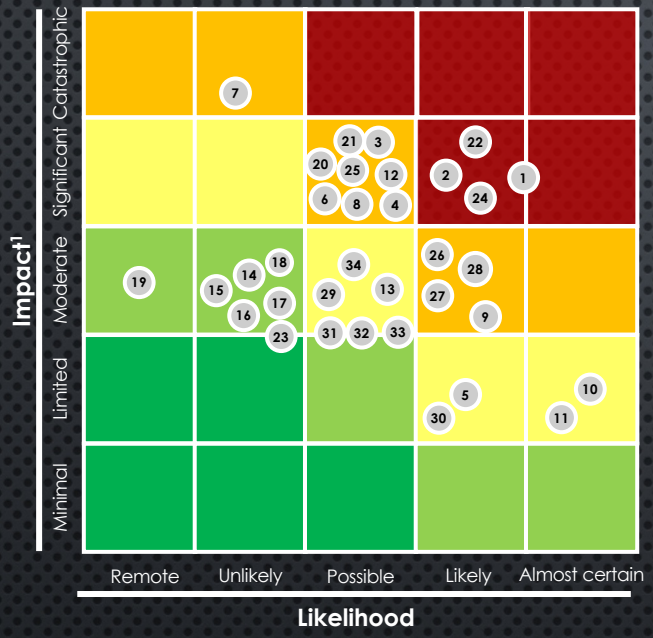
7. Financial (tax) impact from sanctions for violations related to Non-Profit status
8. Unexpected increase in discretionary spend, disparate procurement & 3rd party engagement, inadequate asset management
9. Affordability of overhead cost structure to support the subsidiaries
10. Claims subject to material occurrences of error and identify theft
11. Declining interest rates and economic downturn impacting investments
12. Weak internal controls over recording of financial transactions creating opportunities for misstatement of transactions in the financial statements

Human Capital

13. Material increase in the use of independent contractors for employee related roles.
14. Challenges in filling key positions, increase in employee turnover, strong job market/low unemployment
15. Reduction in year over year employee engagement, high absenteeism, low morale
16. High propensity of Workers Compensation Claims, known safety/security hazards etc.
17. Gaps in required skills-sets, additional costs associated with upskilling
18. Unplanned increase in required staffing levels

Risk landscape is for illustrative purposes only and is not specific to a particular organization

KEY RISK INDICATOR REPORT (EXAMPLE)



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Information Technology

19. Enterprise & 3rd party hacks, data breach, system compromises, loss of data in use. Inability to enforce security/log-in credentials
20. Increasing pace of new product development; increase in needed speed to market; cost increase; 3rd party dependency
21. Inadequate protection of IP; other entities impinge upon or steal IP rights
22. Data management and data governance framework not established to validate the integrity of data assets

Operational

23. Non-comprehensive & untested Business Continuity Plans to prepare for business failures and disasters
24. Vendor background checks & credential validation. Weak internal selection and on/ off-boarding process. Insufficient monitoring & oversight. Unclear internal ownership & accountability
25. Complex & non-scalable business operations structure limiting high value service delivery
26. Fragmented systems, extensive manual workaround processes, and no single system of truth for customer information
27. Increase in the frequency and severity of patient/client safety incidents
28. Inadequate and aging infrastructure to support subsidiary companies

Regulatory Compliance

29. Occurrences of breach of EEO regulations (ERISA, FMLA, COBRA etc.)
30. Regulatory mandated trainings are not appropriately identified, required attendees are not accurately selected, ineffective content & delivery medium, attendance/certifications are not appropriately tracked
31. HIPAA privacy violations
32. Inadequate tracking of employee compliance training requirements and attestations; increasing number of disclosed actual or potential Conflict of Interests
33. Medical providers/practitioners not meeting required contractual obligations and/or service standards, Increasing number of grievances/complaints, below average quality audit scores

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CONCLUSION

Quote

"Alignment of business strategy and risk appetite should minimize exposure to large and unexpected losses.

In addition, the firm's risk management capabilities need to be commensurate with the risks it expects to take."

Jerome Powell
Chair, US Federal Reserve