Knocking Down Silos: The Case for Collaboration

Why building a partnership between internal audit and compliance is critical

By Robert Freedman

Some organizations are finding they can improve their risk profiles by knocking down the silos and melding their internal audit and compliance functions into a collaborative working group. Bringing these teams together and drawing from best practices of each ensures an effective environment for the most volatile segment of the business-regulatory recovery.

Mount Sinai Health System in New York and SCL Health System in Denver have combined these two groups, and the results are encouraging. Although there are obstacles to overcome in the partnered arrangement, organizations that have done this may be enjoying the best of both worlds.

The importance of developing a partnership

Internal audit and compliance have differing missions, but at their core they are both concerned with identifying and mitigating risk within the organization. Internal audit is concerned with assessing risk throughout the organization, evaluating policies and procedures, testing internal controls, and recommending improvements to strengthen identified weaknesses.

Compliance assesses risk with respect to regulations that govern the organization’s operations, evaluates policies and procedures for compliance with regulations, identifies noncompliance with regulations, responds to reports of compliance infractions, and then drives the corrective actions, including ensuring the implementation is correctly done.

Typically, the approach required to fulfill internal audit and compliance responsibilities rely upon similar approaches, techniques and skills. This is one of the strong arguments for combining the two functions. An important difference, however, is that compliance staff stays on-scene as part of correction efforts, while internal audit is required to preserve its independence and objectivity by not participating in corrective action, and will generally return later to conduct a follow-up audit. This difference is one reason some organizations believe it is better not to combine the functions.

Today’s healthcare organizations are expected to handle growing challenges with diminished resources. This is particularly evident in the internal audit and compliance functions where demands continue to grow but budgets remain tight. While internal audit and compliance requirements vary, organizations can deliver positive results by leveraging the synergies of the two functions.
A recent report from The Institute of Internal Auditors points out that company boards and stakeholders are increasingly looking to internal audit to be more involved in identifying and addressing growing business risks. The same survey shows that organizations are focusing their audit plans more on business strategy, risk management effectiveness and governance, with less emphasis on traditional operational and finance audits. Two-thirds of Chief Audit Executives cite risk management processes as the top area of focus for audit teams.

Although there should clearly be synergy between audit and compliance, they often operate in separate silos. As a result, the key concepts of quality management, Six Sigma and Lean Processes that have been ingrained into audit often do not cross over to the compliance group. Overcoming historical differences and bringing the two groups together can help cross-pollinate practices to make both more efficient and effective.

**Making the partnership work**

Cooperation between audit and compliance throughout the industry has been a mixed bag. Each group tends to be territorial because of the fear of losing resources or influence within the organization. However, enlightened leaders in some organizations have embraced the concept of collaboration, and are working closely to improve both the audit and compliance functions to minimize overall risk to their organizations.

Tracy Davis, Director of Hospital and Physician Billing Compliance at Mount Sinai Health System in New York City, and Ronald Sparks, Chief Audit Executive, Internal Audit Services at SCL Health, believe in leveraging the strengths of the two functions to improve overall institutional oversight.

The Mount Sinai Health System combines the Icahn School of Medicine at Mount Sinai with seven hospital campuses. The system has 3,535 beds and is a tertiary-care teaching facility, acclaimed internationally for excellence in clinical care.

SCL Health is a faith-based nonprofit health organization operating eight hospitals with over 500 providers in Colorado, Kansas and Montana.

“Our internal audit function is trying to provide executive management with a certain level of assurance,” says Sparks. “I want to make sure I’m deploying my associates in the right manner and we’re looking at the right things. In the old-school audit mentality there is some guesswork. You can do a traditional method of interviewing 20 people and coming up with an audit plan, and you will likely minimize some risk. But the question remains: What did we miss that’s out there lying in wait to pounce on the organization?”

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“The Chief Compliance Officer and I give a lot of thought to determine if we are using our respective resources the right way, trying to complement and leverage each other’s departments as we strive to mitigate risks,” Sparks continues. “We can’t afford to have a significant internal control breakdown or compliance infraction that’s going to cost the organization millions of dollars. That will directly affect our core mission of providing for the poor and the vulnerable, and that’s not acceptable. That mentality exists here with both compliance and internal audit, and I think that’s why we’ve been able to partner so well together.”

Davis came to a similar conclusion when reviewing the oversight operation at Mount Sinai. “Our audit and compliance departments historically worked together on
investigations, and also partnered very effectively to address revenue cycle concerns," he said. "We found that it was most effective to have input from audit, compliance, operations and finance."

Davis also noted benefits to his own professional development. "I found that the skills I learned while in internal audit complemented my regulatory compliance knowledge very well," he said.

In 2013, Mount Sinai decided to combine the Audit and Compliance departments under the leadership of Frank Cino, the Senior Vice President of Audit and Compliance Services and Chief Risk Officer. In this new model, the combined team is able to operate more efficiently and mobilize more quickly to address emerging concerns.

"We recently acquired several new hospitals and didn't increase our staff," Davis continued. "Our challenge has been to work as efficiently as possible with fewer resources in order to cover more territory. To help achieve that goal, we involve the entire institution in mitigating risks by focusing on local level monitoring. Our CFO, Don Scanlon, stresses that each operational unit is responsible for compliance."

**Overcoming challenges**
Understandably, the new approach met with skepticism from both audit and compliance groups. SCL Health tackled the issue head on by communicating regularly with both groups on what they were trying to accomplish.

"You have to be transparent and share what you have going on and what you're thinking," says Sparks. "One side or the other has to take the first step to come out of their silo and extend the olive branch. We are both passionate about what we are doing and how we are trying to mitigate risks to the organization. The Chief Compliance Officer and I met in the middle because we knew the value that our combined passion and talents could bring to the organization."

To further their collaborative efforts, SCL Health is creating a governance committee to help make decisions on prioritizing areas of focus and how to deploy resources. The committee, which includes audit, compliance and revenue cycle management, and hospital and physician coding, will also decide how audit and/or monitoring tools will be used.

"The process up to this point has been very open and nonthreatening," says Sparks. "We stress that it's about the organization and not about any one particular department."

Davis acknowledged that there was resistance in the beginning and noted, "We overcame the resistance with senior leadership's support and by involving the appropriate players in crafting the right solutions."

**Starting on the right foot**
One of the first steps to establishing the program is for each side to recognize they are not completely knowledgeable about what is happening in the other department. Coming together with the understanding that they both have things to learn can form a solid basis for the collaboration.

"I recognized early in my career that I'm not a compliance officer. I'm an auditor," says Sparks. "And our Chief Compliance Officer acknowledged that she is not a process and internal controls expert. Each group has to recognize their strengths and what they are responsible for, and also appreciate how these skill sets can complement each other. We came to that conclusion and understanding early on and each group respects that."

For the most part, compliance officers at SCL Health do not have people flowcharting processes. They turn to the audit team for that. If a systemic issue related to a process is detected, an internal auditor investigates by working with someone from the compliance office. This type of partnership maps out the problem to help understand the process better.

**Leadership support is key**
"Executive leadership and the Audit and Compliance Committee quickly recognized the benefits of sustained collaboration between audit and compliance," Sparks says. "They've also supported our collaboration on Enterprise Risk Management that's co-led by internal audit, compliance and risk management."

Leadership was crucial to the success of the Mount Sinai program as well. Executives endorsed the idea of collaboration between compliance, patient financial services, finance and operations. There is a clear message coming from the top of the organization that compliance is everyone's responsibility.

"Our SVP of Audit and Compliance Services is also our Chief Risk Officer, and leads our Enterprise Risk Management efforts," said Davis.
From sampling to data analytics
A key positive outcome of the merger of internal audit and compliance at Mount Sinai has been the expanded toolkit available to the combined group. Audit tools such as ACL software and continuous monitoring provide significant benefits for the compliance group. Compliance tools that provide both auditing and analytics capabilities have proven to be especially valuable as well.

“Why aren’t auditors using big data to try to provide greater assurances and minimize risks?”

The collaboration at SCL Health has resulted in more focus on data analytics. “It’s always been a bit of a guessing game on how to deploy coding auditors,” says Sparks. “We see hundreds of thousands of patients, and all their records get coded. Auditing a small sample does not seem to do it justice. In my opinion, it really does not offer a whole lot of assurance. I felt there had to be a better way to really understand and mitigate potential risks. I wanted to know if there was a tool available that could help us.”

As a result, SCL Health decided to take a page out of the internal audit book and place more emphasis on data analytics and continuous monitoring for the compliance group.

That type of thinking is beginning to take hold in other organizations. There is a movement coming from some of the best thinkers on the compliance side that baseline audits are no longer the best approach for gathering data for education. There is a growing feeling that they do not work well and there is no way to sustain the amount of human resources required to carry them out.

“Why aren’t auditors using big data to try to provide greater assurances and minimize risks?” asks Sparks. “That is what drives me to do more in the analytics space. Analytics won’t replace everything, but we can do a great deal more than we are doing as an industry.”

Mount Sinai is using data analytics to focus their audit approach. They often use the same data mining techniques used by external regulatory agencies to be more proactive in addressing compliance concerns, instead of reviewing small samples across all providers. “We have had great success...
with this initiative and have been able to mitigate risks and focus on providers who have been historically reluctant to change,” says Davis. We also report our results on a quarterly basis to our leadership, who help reinforce the importance of complying with the rules.”

Davis says they purchased a compliance billing platform and plan to use it to help monitor specific KPIs to identify trends and areas that may require a deeper dive.

Benefits of the partnership
The ongoing cooperation between the two functions has provided a number of benefits for Mount Sinai. There has been an increase in effectiveness and efficiency, and staff has been provided with more focused reviews to target risk areas.

Communication of outcomes to senior leadership and the Board is more frequent. All metrics are summarized consistently and in graphical format, so executives can digest the results quickly and formulate an action plan when necessary. The process created a system of accountability with everyone understanding that the results would be shared with the Board. The increased focus has spurred everyone to be more actively engaged in collaborating to solve problems.

SCL Health is seeing clear financial benefits to their collaboration project as well. A collaborative program between internal audit and compliance enables effective deployment of personnel. If organizations intend to grow without adding auditors, internal audit and compliance need to manage risk with the teams they have. That means developing a data analytics strategy that is going to provide greater assurances that the organization is operating under control.

Breaking down silos
“|I’ve found that partnerships with audit, compliance, health information management, legal, patient financial services and operations [are] key to achieving success,” said Mount Sinai’s Davis. “This is a core component of our program. I have experienced in other organizations where operations does not typically involve the audit and compliance departments to help solve problems. Instead, they hoped they would not be audited or that the audits would not surface known concerns.”

The opposite is true at Mount Sinai, where audit and compliance services are actively sought to help address concerns. They work with other departments in a way that allows problems to be fixed without pointing fingers. This encourages communication, openness and transparency.

“We’re [increasingly] being asked to send auditors to discuss processes, controls and issues across the organization,” says Sparks. “People in the organization are not afraid of the audit or compliance groups like they used to be.”

Sparks says that the greatest benefit so far has been that everyone has a better understanding of what everyone else does. “Silo thinking does not work in healthcare these days, and this collaboration has brought people out of their silos…In the end, that might be our single biggest gain. I’m surprised there are not more organizations going down the collaborative road.”

Conclusion
The pressure on healthcare providers will continue to build. Those organizations who survive and thrive will be the ones that are able to develop innovative plans that challenge conventional ways of operation. It is becoming evident that programs like the ones developed at Mount Sinai and SCL Health can be the leading edge of a new way of thinking. Leveraging the collective talent and knowledge base of internal audit and compliance through a cooperative partnership may prove to be one of the most effective methods for healthcare organizations to avoid costly risks as they move forward. NP