Strengthening Internal Controls in Healthcare Finance

Enhancing financial accuracy and compliance in healthcare settings

Welcome and Objectives

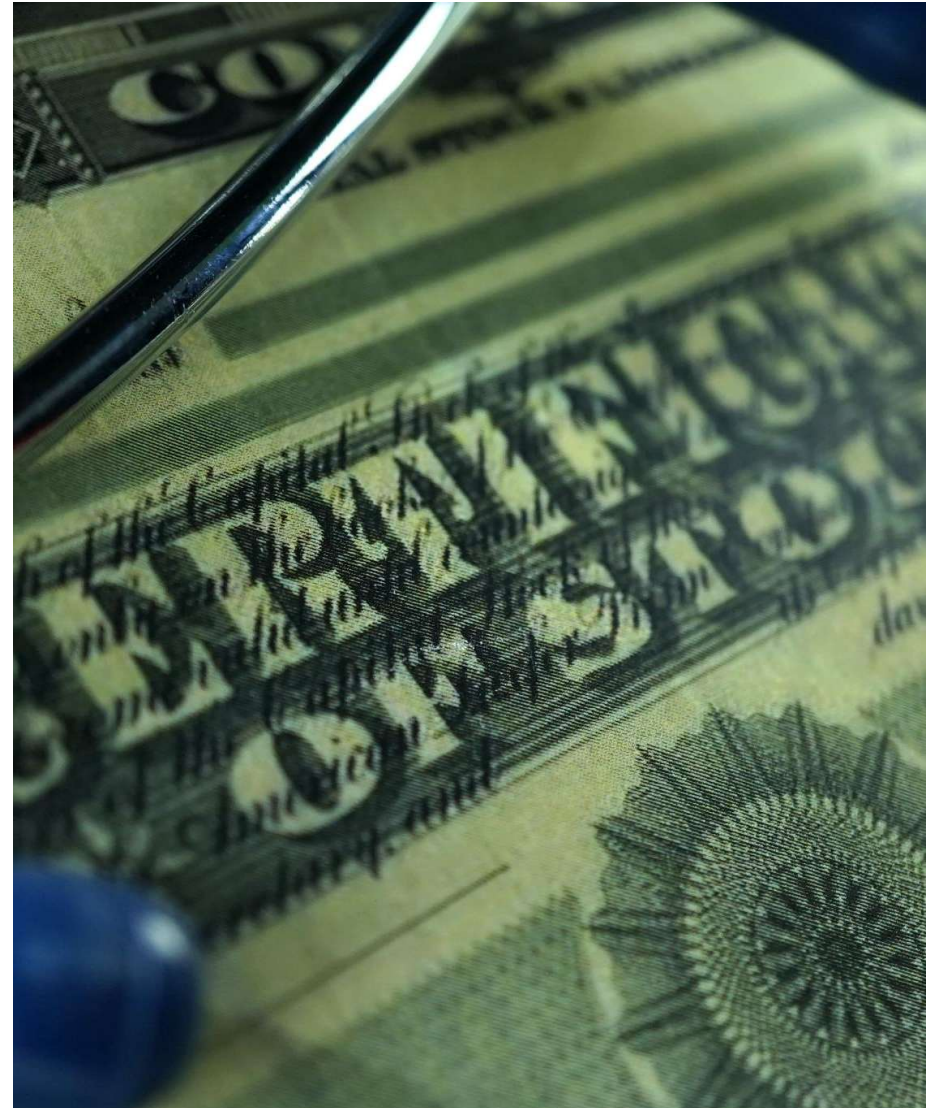### Importance of Internal Controls

Internal controls safeguard assets, ensure accurate reporting, and promote compliance within healthcare finance.

Session Objectives

Provide comprehensive understanding, highlight risks, and share best practices for healthcare CPAs.

Expected Outcomes

Participants gain practical insights to strengthen internal control frameworks in healthcare organizations.

INTERNAL CONTROLS REFRESHER

Introduction to Internal Controls in Hospitals

Purpose of Internal Controls

Internal controls safeguard hospital assets, ensure compliance, and maintain financial report integrity.

Risk Management Importance

Robust controls help prevent fraud, errors, and inefficiencies affecting patient care and stability.

Regulatory Compliance

Controls support adherence to HIPAA, CMS guidelines, and other healthcare regulations.

Assurance to Stakeholders

Internal controls provide confidence to boards, auditors, and regulators on responsible resource management.

Objectives of Implementing Internal Controls

Safeguarding Assets

Internal controls protect hospital assets by preventing unauthorized use and minimizing risks of loss or theft.

Accurate Financial Reporting

Controls ensure timely and precise financial statements to support budgeting, forecasting, and decision-making.

Compliance and Fraud Prevention

Internal controls promote regulatory compliance and help detect and prevent fraudulent activities within hospitals.

Continuous Improvement Culture

Regular review and updates of controls help hospitals adapt to emerging risks and regulatory changes effectively.

Internal controls refresher

Types of Controls

Controls include preventive measures like segregation of duties and detective measures like audits.

The entity can also use a mixture of manual and automated controls.

Benefits of Internal Controls

Effective controls prevent fraud, reduce errors, and build stakeholder trust by preventing regulatory breaches.
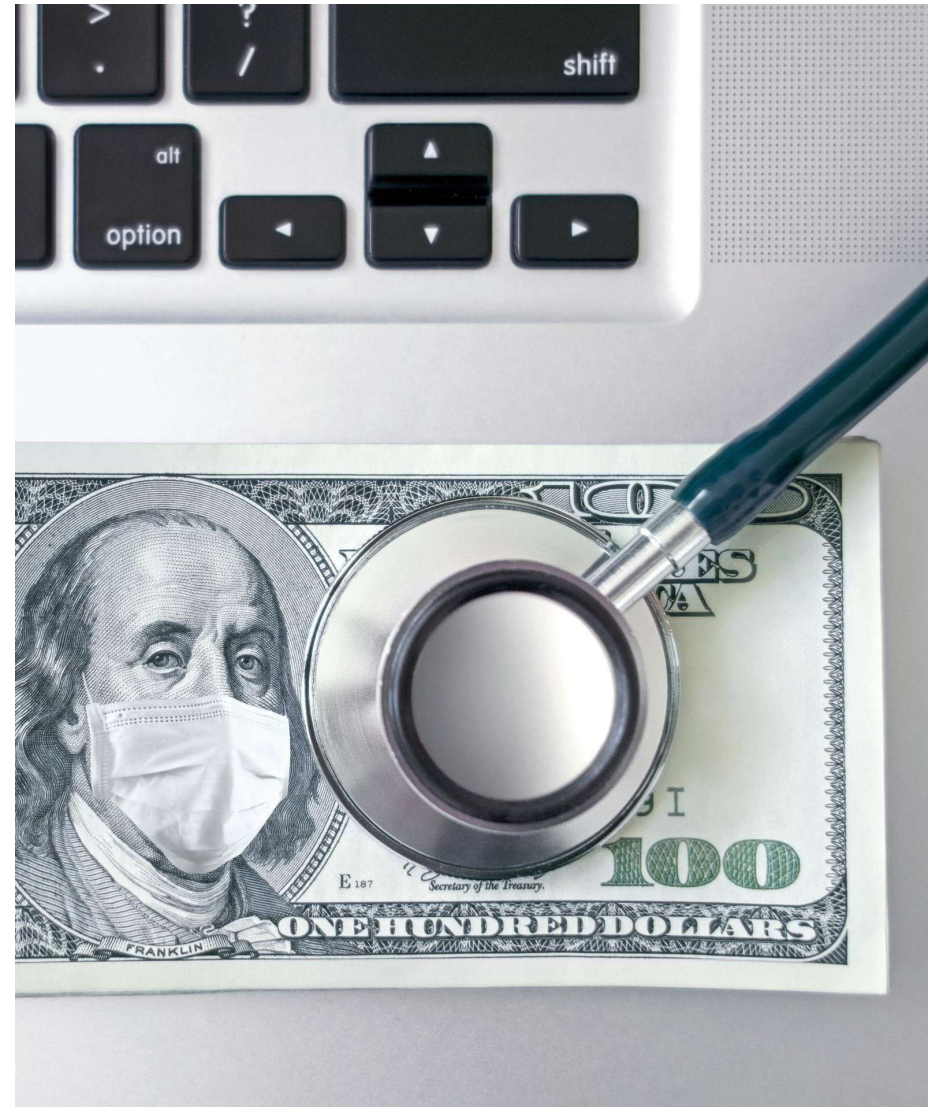
Polling Question #1

What type of control typically provides the highest level of assurance?

a. Manual

b. Automated

Correct Response: Automated

UNIQUE RISKS IN HEALTHCARE FINANCE

Challenges and Vulnerabilities

Complex Revenue Cycles

Healthcare finance involves intricate billing, coding, and collections processes requiring careful management.

Regulatory Compliance

Strict regulations like HIPAA and Medicare/Medicaid impose critical compliance demands on healthcare finance.

Common Control Failures

Failures such as duplicate payments and unauthorized system access increase financial risks and fraud.

Other considerations

Healthcare entities typically have high transaction volume which can create additional challenges

Tailored Internal Controls

Customized control measures are essential to address healthcare's unique operational and regulatory risks.

FRAUD TRENDS & STATISTICS

Prevalence of Fraud in Healthcare & Common Types

- Healthcare is one of the most targeted industries for financial fraud due to complex billing, high transaction volumes, and regulatory requirements.
- The National Health Care Anti-Fraud Association estimates that financial losses due to healthcare fraud are in the tens of billions of dollars annually in the U.S.

Common Types of Fraud

- Billing fraud – Submitting claims for services not provided, upcoding, unbundling procedures
- Kickbacks – Illegal payments for patient referrals or business
- False claims – Filing claims for unnecessary procedures or non-existent patients.
- Identity theft – Using stolen patient information for fraudulent billing.
- Vendor fraud – Overbilling or billing for goods/services not delivered.

Recent Statistics

- According to the U.S. Department of Justice, healthcare fraud settlements and judgments exceeded $2.6 billion in 2023.

- Billing fraud accounts for the largest share of reported cases, followed by kickbacks and false claims.

- The Centers for Medicare and Medicaid Services (CMS) reports that improper payments in these programs remain a significant risk area.

Red Flags & Warning Signs

- Unusually high billing for certain procedures

- Frequent changes in vendor relationships

- Lack of supporting documentation for claims

- Employees resisting audits or oversight

Impact

- Financial loss to organizations and government programs
- Legal penalties, fines, and settlements
- Reputational damage and loss of patient trust

Role of Internal Controls

- Preventive controls (segregation of duties, automated claim checks)
- Detective controls (regular audits, data analytics for anomalies)
- Continuous monitoring and staff training

Polling Question #2

What accounts for the largest share of reported fraud cases?

a. Kickbacks

b. False claims

c. Billing fraud

d. Identity theft

Correct Response: Billing fraud

COSO FRAMEWORK

COSO Framework for Internal Controls

COSO (Committee of Sponsoring Organizations of the Treadway Commission) provides a globally recognized framework for designing, implementing, and evaluating internal controls.

FIVE COMPONENTS

1. Control Environment: Foundation for all other components; includes integrity, ethical values, and competence of the organization's people.

2. Risk Assessment: Identifying and analyzing risks to achieving objectives, including fraud risks and regulatory risks.

3. Control Activities: Policies and procedures that help ensure management directives are carried out (e.g., approvals, authorizations, verifications, reconciliations)

4. Information & Communication: Systems and processes that support the identification, capture, and exchange of information in a timely manner

5. Monitoring Activities: Ongoing or separate evaluations to ensure controls are present and functioning

APPLICATION IN HEALTHCARE

1. Control Environment: Leadership commitment to compliance and ethical behavior

2. Risk Assessment: Regular review of billing, coding, and regulatory changes

3. Control Activities: Segregation of duties, automated claim checks, reconciliation of patient accounts

4. Information & Communication: Secure sharing of patient and financial data, clear reporting lines

5. Monitoring Activities: Internal audits, dashboard reviews, exception reporting

BEST PRACTICES FOR INTERNAL CONTROLS AND EXAMPLES
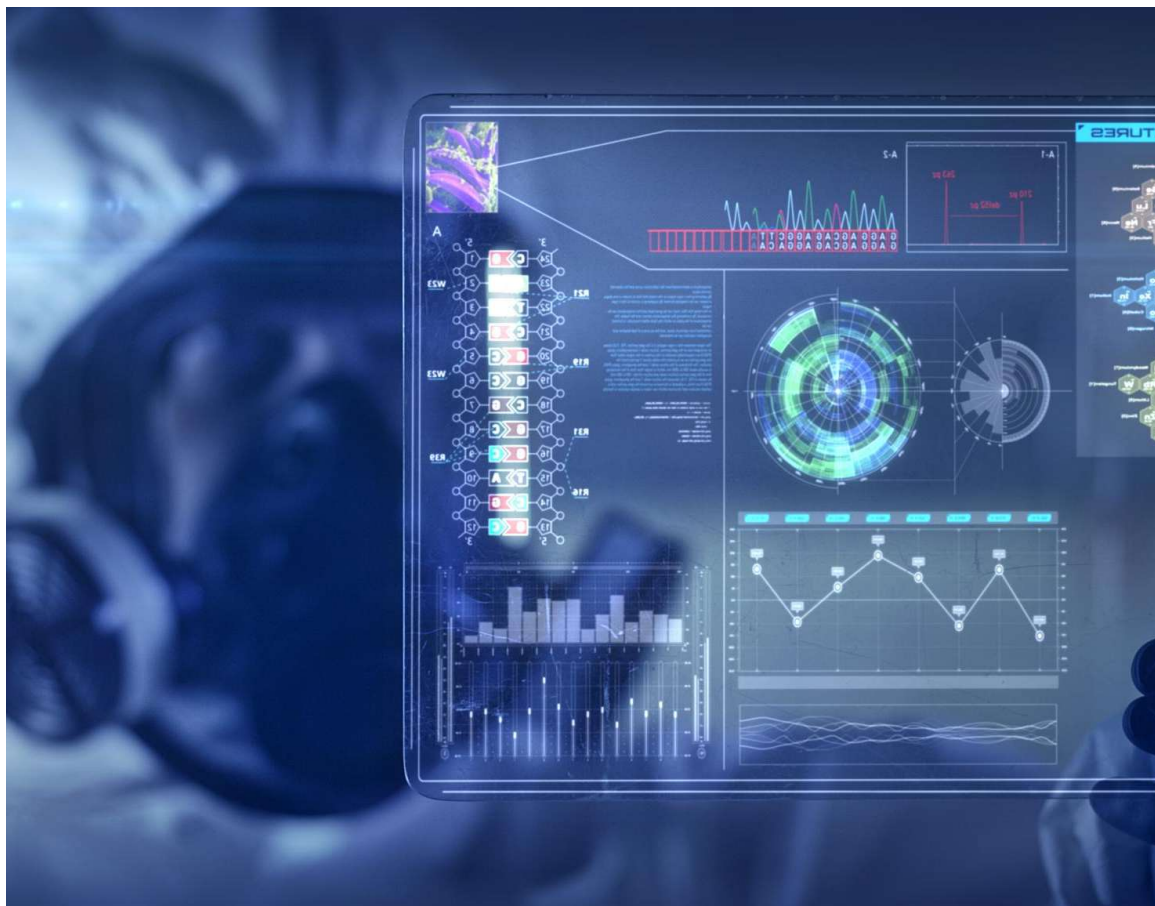
Actionable Strategies

Segregation of Duties

Separating roles reduces fraud risk by preventing single-person control over transactions.

Regular Reconciliations

Frequent variance analyses detect financial discrepancies early and maintain accuracy.

Access Controls

Role-based permissions and audit trails protect sensitive patient and financial data.

Monitoring and Technology

Dashboards, exception reports, and AI tools provide real-time financial insights.

Regular User Access Reviews

Purpose of Access Reviews

Periodic user access reviews ensure permissions match job roles, reducing unauthorized data access risks.

Risk Reduction and Compliance

Removing unnecessary privileges minimizes unauthorized access and helps maintain HIPAA compliance in hospitals.

Best Practices for Reviews

Quarterly reviews involving IT and compliance teams using automated tools improve accountability and detect anomalies.

Documentation and Accountability

Documenting approvals and changes creates audit trails supporting transparency and accountability in access management.

Timely Terminations

Importance of Access Termination

Prompt revocation of access prevents data breaches, unauthorized transactions, and protects hospital reputation.

Automated Workflows

Automated systems trigger immediate removal of access upon employee termination, covering all critical hospital systems.

Cross-Department Coordination

Effective termination requires collaboration among HR, IT, and department managers for completeness.

Regular Audits

Conducting audits of terminated accounts ensures control effectiveness and compliance with regulations.

Polling Question #3

As long as the terminated associate no longer has access to their computer, it does not matter when IT terminates the user in the system.

a. True

b. False

Correct Response: False

Compliance Hotline and Policy Communication

Anonymous Compliance Reporting

Compliance hotlines enable anonymous reporting of unethical behavior, fostering transparency and accountability.

Clear Policy Documentation

Providing clear documentation ensures policies are well understood and accessible to all hospital staff.

Regular Staff Training

Ongoing training sessions reinforce awareness of internal controls and ethical standards among employees.

Role in Fraud Prevention and Ethical Culture

Confidential Reporting Channel

Compliance hotlines offer a safe, confidential way for employees to report unethical behavior without fear of retaliation.

Early Issue Detection

Hotlines enable early detection of fraud and ethical issues, allowing for timely corrective actions to be taken.

Commitment to Integrity

Using hotlines demonstrates organizational commitment to integrity and compliance with ethical standards.

Independent Board Oversight

Role in Accountability

Independent boards ensure hospital accountability by reviewing financial and compliance reports regularly.

### Conflict of Interest Avoidance

Board members must avoid conflicts of interest to maintain unbiased, ethical governance.

Strategic Engagement

Active board engagement in strategic decisions strengthens hospital governance and risk management.

Ethical Standards Protection

Independent oversight helps uphold ethical standards and protect stakeholder interests in hospitals.
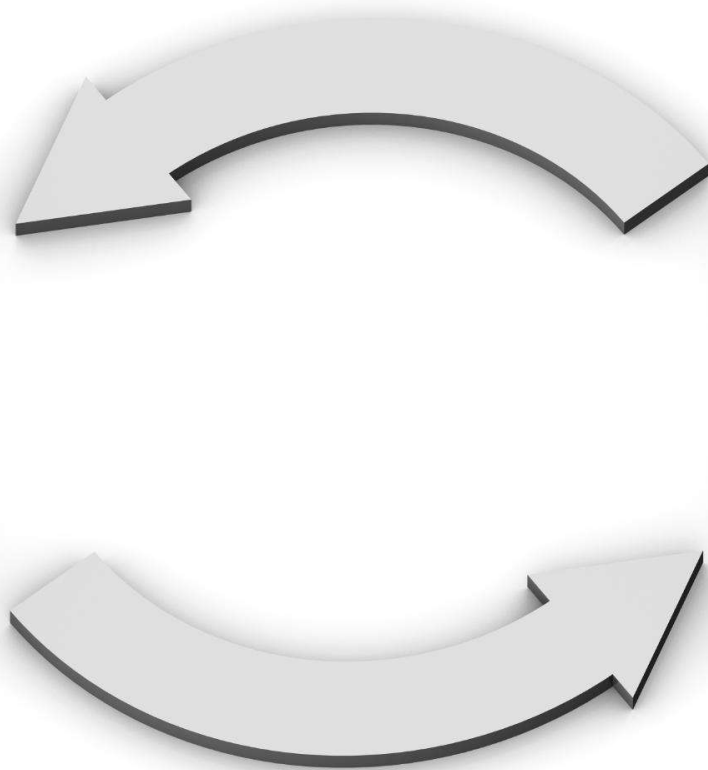
Segregation of Duties in Cash Cycles

Fraud Prevention Importance

Segregation of duties limits fraud by ensuring no single person controls all transaction steps.

Role Separation Example

Cash receipt, transaction recording, and account reconciliation must be assigned to different individuals.

System Enforcement & Audits

System-based controls and regular audits strengthen segregation and reduce errors and misconduct.

Independent Review of Manual Journal Entries

Risk of Manual Entries

Manual journal entries can be manipulated if controls are weak, risking financial inaccuracies.

Independent Review Process

An independent reviewer, different from the preparer, ensures accuracy and objectivity in entries.

Approval Workflows and Documentation

Hospitals should implement approval workflows and require detailed explanations for all manual journal entries.

Regular Audits to Detect Issues

Regular audits help identify error or fraud patterns within manual journal entries.
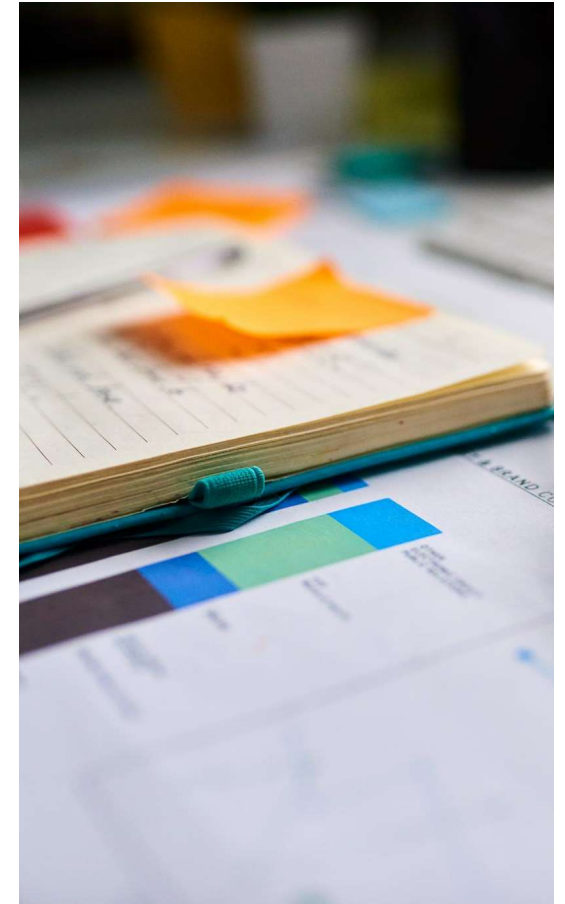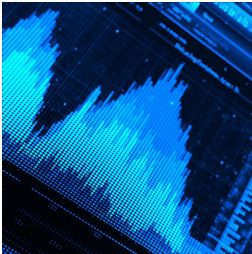
Daily Cash Reconciliations

Importance of Daily Reconciliation

Daily reconciliations help maintain accurate financial records and detect discrepancies promptly, preventing fraud and errors.

Best Practices

Utilizing automated tools, trained staff responsibilities, and documenting all findings improve reconciliation effectiveness.

Supervisory Reviews

Regular supervisory reviews provide an extra assurance layer, enhancing financial control and accuracy.

Consistent Calculation of Allowances for Doubtful Accounts

Purpose of Allowances

Allowances for doubtful accounts estimate uncollectible amounts from patients or insurers, ensuring accurate financial reporting.

Calculation Methodology

Consistent calculation uses historical data, economic conditions, and patient demographics for reliable estimates.

Review and Documentation

Regular reviews and transparent documentation improve accuracy and credibility of allowance calculations.

Financial Impact

Accurate allowances prevent overstated revenues and support sustainable hospital financial planning.
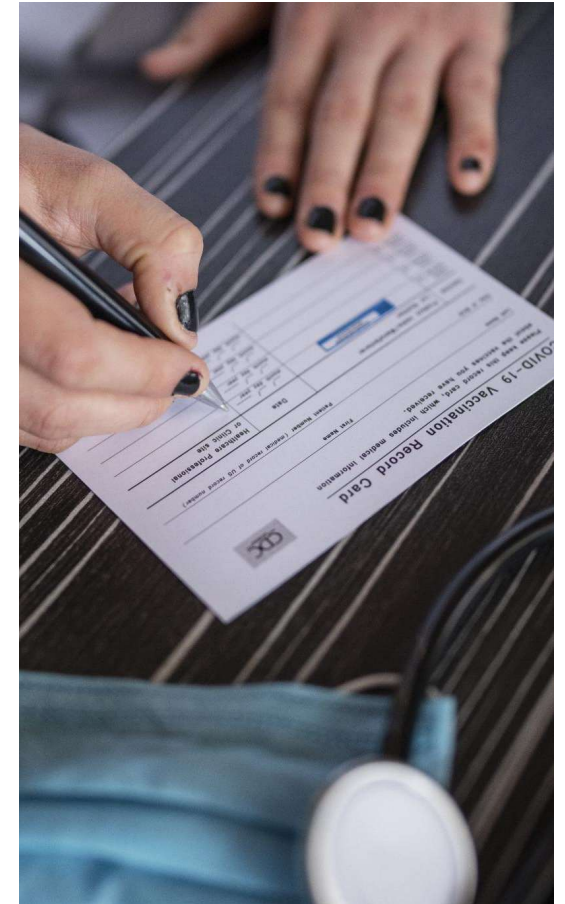
Polling Question #4

The accounting department is the only responsible party for internal controls?

a. True

b. False

Correct Response: False

PRACTICAL CPA CHECKLIST

1. Are duties properly segregated to prevent conflicts of interest?

2. Are reconciliations performed regularly and reviewed by independent personnel?

3. Are access controls enforced for financial and patient data systems?

4. Is monitoring of transactions and exception reporting continuous?

5. Are policies and procedures documented and updated regularly?

6. Are staff trained on internal controls and compliance requirements?

7. Is there a process for reporting and investigating control breaches?

8. Are IT systems and automated controls regularly tested for vulnerabilities?

9. Are vendor and third-party relationships subject to control reviews?

10. Is management committed to a culture of integrity and accountability?

CASE STUDIES

Steward Health Care – Internal Control Failure

Steward Health Care rapidly expanded its hospital network using sale-leaseback transactions to unlock capital. However, the organization lacked centralized treasury oversight and robust internal controls.

ISSUE	IMPACT	LESSON
Cash redirected to expansion	Neglected infrastructure and care delivery	Prioritize strategic investment
Lack of treasury oversight	Ballooning lease obligations	Centralize financial controls
Weak internal controls	Bankruptcy and reputational damage	Implement robust oversight mechanisms

Hospital Self-Disclosure – Internal Control Success

A large hospital system discovered a software coding error that resulted in improper Medicare billing and overpayments.

ACTION	OUTCOME	LESSON
Internal audit	Identified billing error	Regular audits are essential
Voluntary disclosure	Reduced penalties	Transparency mitigates risk
Compliance program update	Prevented future errors	Continuous improvement is key

FUTURE TRENDS & RELATED RISKS IN HEALTHCARE FINANCE

Value-Based Care Models
- Shift from fee-for-service to value-based reimbursement
- Increased focus on outcomes, quality, and cost efficiency
- Risks – Need for controls that track performance metrics, patient outcomes, and cost efficiency, not just financial transactions

Growth of Telehealth
- Reshaping how care is delivered and billed. Continued expansion of virtual care and remote patient monitoring
- Risks – Controls are needed to verify remote service delivery, protect patient identity, and ensure compliance with new billing models and privacy regulations

Increased Automation and AI Integration
- Adoption of AI for billing, coding, fraud detection, and analytics
- Risks – While these technologies offer efficiency and real-time monitoring, they also introduce new risks – such as algorithmic errors and challenges in auditing AI-driven processes

Interoperability and Data Sharing

- Becoming standard with providers, payers, and patients exchanging information across platforms
- Risks – Controls must ensure data integrity, privacy, and security in this interconnected environment

Other Emerging Risks

- Third-party vendor vulnerabilities
- Cybersecurity threats – including data breaches and ransomware attacks
- Rapid regulatory changes
- Increased use of mobile and cloud technologies

Polling Question #5

Is your organization currently using AI technology in day-to-day activities?

a. Yes

b. No

CONCLUSION AND Q&A

Key Takeaways and Engagement

Strategic Role of Controls

Internal controls are a strategic asset in healthcare finance, not just compliance tasks.

Benefits of Controls

Controls safeguard resources, ensure accurate reporting, and maintain compliance regulations.

Case Studies Insight

Real-world cases show risks of weak controls and advantages of proactive management.

Engagement and Improvement

Attendees encouraged to apply insights, engage continuously, and participate in discussions.