



Title: Continuous auditing's promise

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Introduction: Finally a reality

Being an internal auditor in healthcare today is not for the faint of heart. A climate of ever-expanding risks combined with near-constant resource shortages makes for a challenging time. But when equipped with the right tools and processes, internal auditors face just as many opportunities as they do challenges – opportunities to expand risk coverage in their organizations and increase their teams' value.

Continuous auditing is one tool that has been anticipated for years and is finally a reality – and it stands to be a game changer for internal auditors as they face an increasingly dynamic, risk-filled environment. This white paper will define continuous auditing and demonstrate, through case studies, its benefits and potential. It also will describe how internal auditors' use of continuous auditing can serve as another asset in their ability to maintain a valuable collaboration with the organizations they serve.

What is continuous auditing?

Continuous auditing is use of technology to conduct nonstop auditing of an organization's transactions and data in critical business areas. In healthcare, those areas might include IT, cybersecurity, pharmacy, clinical departments, payroll, accounts payable, and revenue cycle. The technology uses complete data sets and hundreds of analytical tests to review healthcare organizations' transactions in common risk areas.



Perhaps one of the most distinguishing differences between continuous auditing and traditional auditing processes and transaction quality assurance checks is that the technology used in continuous auditing flags anomalies in transactions *as they happen*. This positions the internal auditor as a business partner, working with management to resolve potential issues in real time – not days or even months later when those small issues have had time to become even bigger ones.

Use of continuous auditing allows internal auditors to expand their risk coverage with enhanced skills and tool sets. In essence, continuous auditing can replace periodic manual audits, which – from time and human resource perspectives – are costly. Continuous auditing also can help internal auditors by covering some of the more routine auditing tasks, freeing up their time to focus on higher-value activities, such as strategic planning. With more basic tasks covered, internal auditors are better able to address emerging issues and risks, making their work more *proactive* and less *reactive*.

At a time when healthcare organizations of all sizes are experiencing constrained resources, they are looking for ways to integrate more efficiency into all operations. As valuable, strategic functions within their organizations, internal auditors can play an important role in these efforts, including conserving resources. But they are being asked to do so in a formidable environment. Some of the challenges facing healthcare internal auditors every day as they cover risk management within their organizations include:

- Pressure to reduce costs while simultaneously producing successful outcomes at a higher level than before
- Manual and labor-intensive audit processes that consume a lot of internal auditors' time
- A constantly changing – and growing – risk landscape that results in more ground for internal auditors to cover
- Disparate data systems that reside in many healthcare organizations and lead to confusion about identifying the genuine sources of truth
- Limited choices for technology that can help organizations manage risk

Despite these challenges, internal auditors are doing the best they can with the best resources they have available to them. With continuous auditing, however, internal auditors could expand their risk coverage further while remaining within their budgetary restrictions, making them even more impactful as auditors within their organizations. But how?

Expanding risk coverage across the healthcare enterprise

As internal auditors know, the challenges healthcare organizations face today are not limited to one area. Examples of opportunities to apply continuous auditing across the organization include:

Finance. Internal auditors can help organizations validate the accuracy and integrity of financials through continuous monitoring and, therefore, the ability to catch issues and possible fraud earlier. Continuous auditing also can identify opportunities for cost reduction. Areas that might benefit from continuous auditing include accounts payable (AP), supply chain, payroll, and financial close.

Revenue cycle. With continuous auditing, internal auditors can monitor how effective the organization's revenue cycle processes are. Some examples of areas that might benefit from continuous auditing include billing, denial management, and charge capture.

Clinical/pharmacy. Continuous auditing uses full data sets, which are essential for giving internal auditors the complete picture of billing and compliance in clinical and pharmacy settings. Full data sets also can enhance audits in clinical areas in other ways, such as by providing deeper analysis of patient safety indicators.

IT. Proactive IT risk management is essential in a climate of increased cyberthreats. Continuous auditing flags potential security problems early and contributes to consistent adherence to IT industry best practices.

The following case studies further illustrate how continuous auditing can help internal auditors expand risk coverage within the organizations they serve.

Case study: Month-end close analysis

The challenge

Hospital X was experiencing numerous out-of-period adjustments to its financials. Frequently, the CFO and controller had to notify the hospital's executive management team, audit committee, and board that although the financial team had closed its books, it still needed to make material adjustments for the current quarter because of missed transactions. These issues also were carrying over to the hospital's financial year-end audit performed by external auditors.



To begin to understand the challenges at hand, the hospital's internal audit team analyzed key financial controls, including balance sheet reconciliation and journal entry approvals. The auditors also conducted a high-level budget analysis. Although the auditors performed those analyses every month during close, the hospital was still experiencing the frequent out-of-period adjustments.

How continuous auditing helped

The internal audit team deployed automated analytics to provide feedback in real time. The set of analytics focused on trial balance analysis and general ledger analysis and provided daily feeds from the general ledger. Internal auditors were able to run calculations using analytics to look for outliers in the monthly change of account balances as they occurred daily during the close.

The continuous auditing software produced interactive data visualization graphs that auditors could review and use to easily pinpoint outlier transactions and locate the specific accounts where they occurred. Reviewing the information, the auditors could see that one period's total month change after close was significantly higher than in the 18 months prior. This indicated an issue with an account during the close period. The analytics also revealed duplicate journal entries, which indicated that the financial team's journal review process wasn't operating as effectively as it could be.

The outcome

Internal auditors further analyzed the outlier account by reviewing journal entries during that month's close and found specific journal entries that revealed the cause of the month-end close issue. The team discovered that the hospital's IT department had implemented a new automated payment to a pharmacy vendor. When IT staff implemented the autopay to this vendor, it also automated the journal entry process. When the payments were made to the pharmacy vendor, the IT system automatically recorded that journal entry.

The accounting team, however, was not aware of this new automated vendor payment and continued to record payments to that vendor manually as it had in the past. Team members would review the bank statement, determine what payments had been made to which vendors, and then record a journal entry based on those dollar amounts. Essentially, all payments to this pharmacy vendor – which amounted to millions of dollars – were being recorded twice. The hospital's financial reports were understating cash and overstating liability because it was documenting the liability twice.

With continuous auditing technology in place, internal auditors became better positioned to catch outliers sooner and quickly determine their source. After implementing continuous auditing, Hospital X experienced far fewer out-of-period adjustments to its financials.

Case study: 340B compliance

The challenge

Hospital Y had been experiencing uncertainty and confusion surrounding its compliance with 340B Drug Pricing Program regulations. The challenges were underscored by a high rate of turnover among staff familiar with navigating the program's requirements and overall staff shortages. With fewer staff members available to monitor compliance, the team looked for ways to watch for potential problems.

How continuous auditing helped

Hospital Y's internal audit team took a first step toward implementing continuous auditing, using data analytics tools to test 100% of the hospital's 340B-qualified dispensations and program data. This included 100% of the hospital's mixed-use and owned retail and contract pharmacy 340B transactions in key risk areas such as diversion, duplicate discount, and group purchasing organization prohibition.

Then, using continuous auditing software, the internal audit team compared the hospital's 340B-qualified transactions and program data to analytics logic, which offered comprehensive insights into Hospital Y's 340B Program compliance.

The outcome

The continuous auditing software provided Hospital Y detailed summary results, allowing staff to identify problem areas more quickly and address issues more proactively. Use of analytics allowed auditors to conduct more comprehensive testing – versus relying on small, sample-size audits – and provided additional assurance regarding program compliance.

Case study: Accounts payable and payroll

The challenge

Health System Z, a large national system with operations in numerous states and a sizable number of hospitals and providers, was experiencing a significant number of anomalies within its AP and payroll data. The health system sought a solution that would help it identify anomalies more quickly so staff members could address them before they turned into bigger problems.

How continuous auditing helped

The health system's internal audit team used data analytics to implement continuous auditing throughout the health system's AP and payroll processes. Continuous auditing was set up to:

- Implement statistical analytics to identify all anomalies in AP and payroll
- Automate segregation-of-duties analytics
- Automate 34 AP and payroll tests
- Establish a process to quickly obtain and analyze data and then provide actionable results to health system leadership

In addition, with continuous auditing, internal auditors at Health System Z could test 100% of the data population, allowing them to make sure all anomalies were caught, which was much more effective than conducting periodic audits.

The outcome

After implementing continuous auditing, internal auditors at Health System Z were able to identify payroll and AP exceptions faster, allowing leadership to identify issues, make corrections, and implement solutions more quickly.

Continuous auditing also allowed internal auditors to analyze 1.9 million payroll payments made to the health system's 140,000 employees and 2.7 million AP payments made to 40,000 vendors. Through the process of continuous auditing, the internal audit team made additional valuable discoveries, including identifying numerous scam vendors that the health system was able to shut down and stop all future payments to, saving the health system a substantial amount of money. Internal auditors also identified numerous errors in the vendor master file that were corrected, helping to prevent future incidences of fraud.

Finally, continuous auditing helped internal auditors identify several areas across the health system's AP and payroll processes where gaps existed in segregation of controls. The team also identified erroneous and fraudulent Social Security numbers, which again helped rectify and prevent fraud.

Conclusion: What's next?

As healthcare organizations look to maximize efficiencies in an increasingly resource-constricted environment, internal auditors will continue to be indispensable allies in these efforts. Continuous auditing, with its ability to automate manual tasks and provide real-time information via continuous data feeds, has the potential to help internal audit contribute to the increased efficiencies and strengthen its role as a partner in the organization. To implement continuous auditing, auditors can start with these steps:

- Identify process areas in the organization that might benefit from continuous auditing.
- Assess that list to determine feasibility based on resources and tools as well as the impact of potential outcomes.
- Plan resources to develop the continuous auditing or to outsource the development.

Healthcare organization audit and compliance committees increasingly are asking their internal audit teams questions about the use of technology and automation to enhance audits. This evolving landscape presents a great opportunity for internal audit teams of all sizes, maturity levels, and budgets to investigate the use of tools such as continuous auditing during this transformative time.

About AHIA



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