

# Dissecting the Internal Audit Function in Health Care

## Organizations Typically Contemplate Three General Approaches When Determining the Role of Internal Auditor

The traditional role of the internal auditor is to independently and objectively analyze, review, and evaluate existing procedures and activities as well as report and recommend changes to management on various operations of the organization. It can provide expertise and understanding to systems of internal controls that protect against the impact of noncompliance. Unlike the external auditor, the internal auditor does not render financial opinions and its work is primarily focused on non-financial operational audits.

The role of the internal auditor can vary, depending on a number of factors such as size and complexity of the organization as well as the scope of work set aside for the external auditor. In recent years, the internal auditor has been subjected to pressure from two forces: (a) the trend in all business sectors to “outsource” the function; and (b) the rise of the compliance officer function that overlaps with internal auditor. In working with more than a thousand health care organizations over the last 20 years, our firm has encountered both of these trends but find that it often is not a subject discussed openly.

As organizations work to determine the role of internal auditor, there are three general approaches that are most often considered: (1) elimination, outsourcing, or co-sourcing the internal auditor function; (2) merging of the internal auditor and compliance officer functions under the leadership and direction of one or another; or (3) forging better cooperation and coordination of effort.

### **OUTSOURCING/CO-SOURCING**

The internal auditor generally follows the Institute of Internal Auditor (IIA) standards. Many smaller organizations do not have the scale of operations to meet all these standards in house and have been moving to diminish



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or eliminate their internal auditor function and outsource or co-source the work to an outside consulting or accounting firm. The smaller an organization, the more likely it is to either eliminate or outsource internal auditor. Steve Forman is a CPA and nationally recognized expert on this subject with over 35 years of experience that includes being an executive of the Department of Health and Human Services (HHS) Office of Inspector General (OIG); 10 years as vice president for Audit and Compliance at the largest health care provider in New York; and 11 years as a health care compliance consultant. He is a strong advocate for internal auditor services; however, he understands the problem of affordability of such a program in house. He states:

There is a clear cost-benefit argument for internal auditor outsourcing services for most mid-size or smaller organizations, as long as it is not to the accounting or consulting firm that is providing services that create a potential conflict of interest. It has the benefit in reducing internal auditor costs by obtaining access to an internal auditor outsourcing firm's broad range of expertise that would otherwise be too expensive to maintain internally. An alternative approach is to keep an internal auditor function, but at a reduced size, supplementing his or her work from time to time by using an outside consulting or audit firm to work on specific tasks or projects. This approach has the benefit of maintaining the function, but at a much leaner level.

### **MERGING INTERNAL AUDIT AND COMPLIANCE**

The internal auditor and the compliance officer have a lot in common when it comes to compliance. Ongoing auditing for high-risk areas is a large part of the mission of

both functions that includes determining if managers are meeting their obligations for ongoing monitoring for compliance with applicable rules, regulations, and laws. This ongoing auditing needs to be independent of the program operations and is left to the organization to decide how this is to be done – and by whom. Both have a mission to ensure organizational compliance with all applicable laws, regulations, standards, policies and procedures as well as addressing high-risk areas. They also:

- have access to the company's records, documents, property, and personnel;
- perform independent reviews; and
- examine compliance with policies, procedures, rules, regulations, and internal controls.

Unlike the internal auditor function, the OIG states the necessity to have a compliance officer for overseeing the implementation of the compliance program. The OIG also notes that the compliance officer must ensure that methods are established to improve efficiency and quality of services and reduce vulnerability to fraud, abuse, and waste. This includes assisting management in ensuring ongoing compliance monitoring activities of program operations as well as ongoing audit reviews to verify and validate effective compliance monitoring is taking place.

Over the last two decades, the compliance officer function has grown in response to the OIG compliance guidance standards. This has led to a blurring of the line with internal auditor and growth of tension in competition for resources and attention from management. In smaller organizations, it is not uncommon to find the Internal Audit function being subsumed under the Compliance Office or eliminated entirely. At the other end of the spectrum, in larger organizations, there can be significant tensions between Internal Audit and the Compliance Office bordering on a "turf war."

Many organizations have turned to merging the two functions, but taking

this approach has its challenges. Despite the many similarities between internal auditor and compliance officer, there are also important differences, and trying to absorb one into the other can be a major problem and may increase, not diminish, tensions between the two functions. There are those who believe it is like mixing oil and water. From my experience with hundreds of organizations, I can say with some confidence that this can be a daunting task, and the outcome of such a decision frequently is far from what is hoped. In any case, the tone and direction of the merged function will in large part be dictated by which function winds up on top.

### **FORGING BETTER COORDINATION/ COOPERATION**

For many, the best option may appear to promote cooperation and coordination between the compliance officer and internal auditor functions. This would require both the compliance officer and internal auditor to cooperate and coordinate development of their annual audit plans. It should be remembered that internal auditors are an established profession that adheres to generally accepted work standards of IIA that are applicable to both financial and non-financial arenas. Those working in the compliance officer operation can come from a variety of backgrounds, such as nursing, human resources, and legal as well as audit.

The internal auditor focuses on documents, operations, and controls whereas the role of the compliance officer is supposed to be a neutral to both management and the workforce that provides a human face to oversight. Furthermore, the compliance officer is charged with being a communication bridge that builds trust with both management and employees. Bringing together all these perspectives, viewpoints, and expertise is critical to the successful implementation of a compliance program.

Both the compliance officer and internal auditor can participate in this effort, along with other program managers, external auditors, and consultants — or any combination thereof. The internal auditor also can provide support to the compliance function in a consulting capacity with regard to sharing their understanding of the necessity for internal controls and how they are supposed to work. The internal auditor can provide valuable advice in helping operating managers strengthen their own internal compliance controls to verify that they are working as intended.

Jim Cottos is a former executive in the OIG who has more than 15 years of experience as a health care compliance consultant for two nationally recognized public accounting firms, as well as at a leading compliance consulting firm. He also served as compliance officer for several health care organizations. He was interviewed for this article and stated the following:

The compliance officer and internal auditor both have a similar mission to ensure compliance as independent fact gatherers. I have found making use of the strengths of both is the best way to meet the compliance obligations. It just makes sense for them to cooperate and coordinate efforts to avoid duplication; and under the right leadership it can work wonders for the organization.<sup>1</sup>

Steve Forman commented on this by stating:

The compliance officer will never possess sufficient staff or resources to enable direct verification of effectively complying with all applicable laws, regulations, rules, standards, policies, et cetera. The answer to this problem is being able to properly leverage each other to assist in this process.<sup>2</sup>

Neither Cottos nor Forman believes a “turf war” is avoidable, as each function can support the other in meeting their respective responsibilities. They believe what is needed is “continuous contact, discussion, and coordination between them in addressing compliance high-risk areas, such as auditing of program operations to determine if managers are meeting their obligations for ongoing monitoring for compliance with applicable rules, regulations, and laws; and determining the level of effectiveness of those controls in meeting objectives.”

This can be accomplished by including compliance-related audits in the Audit Plan. One way to accomplish this task

more efficiently is to have Internal Audit add compliance tests in its audit protocols. For example, if the internal auditor is going to conduct a revenue cycle audit, it should include compliance elements (*e.g.*, does medical record documentation support coding and billing) in that audit.

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**Endnotes:**

1. He was interviewed for this article on 1/27/14. Also see “One Strategy for Rapidly Developing an Effective Compliance Program” at [www.compliance.com/articles/one-strategy-for-rapidly-developing-an-effective-compliance-program/](http://www.compliance.com/articles/one-strategy-for-rapidly-developing-an-effective-compliance-program/) *Managed Care Outlook, Volume 24, Number 6, March 2011*.
2. Op.cit. Forman “Compliance Program Leveraging of Audit Resources”.



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