Top COVID-19 risk areas
1. Remote workforce and social distancing
2. Board awareness and risk governance
3. Cybersecurity
4. Supply chain and vendor management
5. Treasury, cash flow and liquidity
6. Telehealth
7. Regulatory change management
8. Revenue cycle
9. Public disclosures
10. Workforce strategy and facility management

Challenges
Loss of revenue – Healthcare providers preserved capacity and supplies of personal protection equipment (PPE) by halting elective cases. But that left hospital beds empty, which hurt the finances of hospitals, health systems, outpatient care centers and physician practices. As a result of the COVID-19 crisis, the American Hospital Association estimates an initial four-month financial impact of $202.6 billion in total losses for America’s hospitals and health systems, or an average of $50.7 billion per month.¹ While healthcare providers have initially felt the financial impact, deferred care could also result in higher claims for payers in the coming months.

Changing risk landscape – The financial strain and the response to the COVID-19 crisis have changed the risk landscape for healthcare providers. Internal auditors need to perform rapid risk assessments and refresh their organization’s risk profile to support development of a new risk mitigation plan that focuses on high-risk control gaps.


COVID-19 has upended the healthcare industry in ways that were inconceivable at the start of 2020. The pandemic poses the need for agility among healthcare internal auditors to help providers and payers identify risks that were not previously considered.
Inadequate reimbursement – Even hospitals that have borne the brunt of COVID-19 cases might not be able to cover the cost of care. Analysis by Strata Decision Technology found that even with Coronavirus Aid, Relief and Economic Security (CARES) Act funding, COVID-19 will cause an average loss of about $1,200 per case and up to $8,000 per case for some hospital systems, depending on their payer mix.\(^2\)

Volatility in the financial markets has affected the value of investments that have typically served as a backstop for operating losses.

Changing control environment – Hospital executives are also addressing supply chain issues and trying to protect employees and the public, while managing all the operations necessary for patient care. With the operational and financial changes required by COVID-19, processes have been quickly implemented or modified and current controls may not appropriately mitigate risks, adding a challenge to the control environment and risk management.

CARES Act required reporting – The CARES Act eased a lot of regulations and created channels to gain access to funds very quickly to aid healthcare providers. Compliance with the CARES Act demands a structured process of tracking, documenting and monitoring these activities.

Rapid risk assessment

The new demands and risks imposed on healthcare organizations require a rapid response from the internal audit function. A quick risk assessment, which can take as little as two weeks, can identify process and control changes across key business processes that are significantly affected by COVID-19.

You can facilitate an approach that is interview-based, or a self-assessment by business process owners to evaluate risk ratings based on process changes. The risks are gathered and compiled to report to management, the board and the audit committee. The report should include a refreshed risk profile and a risk mitigation plan.

The risk mitigation plan will focus on business processes that require immediate attention. You should identify gaps and outline recommendations and corrective actions that need to be taken.

Exhibit 1 summarizes business areas for healthcare providers that are likely to be significantly affected.

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Remote workforce and social distancing

Management supervision of staff becomes more challenging and potentially less effective as more people work from home. The complexity and stress of transitioning to more remote staff is compounded for managers and supervisors. Extra time is needed to help and supervise onsite staff to manage workforce shift adjustments, and to follow new requirements for safety, privacy, coding and billing.

Planning for workforce and facility management has been more difficult. The true impact of the COVID-19 situation is unclear. You can bring clarity to the organization by assessing the effectiveness of social distancing, remote IT access and working from home. You may find administrative inconsistencies, poor understanding of performance expectations and technology deficiencies that exist with these new ways of conducting business. You can provide this value-added feedback to executives and the board so any needed corrective action can be taken.

Board awareness and risk governance

As the organization’s operating model changes, the board of directors may have difficulty meeting its governance obligations such as overseeing risk, providing timely strategic direction to management, and acting as responsible stewards of the organization. You can play a role in building board awareness and providing perspective on evolving risks associated with COVID-19 to facilitate more timely oversight and decision-making.

Cybersecurity

Hackers are not taking a break as healthcare organizations contend with COVID-19. Bad actors have increased the volume and sophistication of attacks with COVID-19-related phishing attempts to access personal login information and servers. They impersonate government agencies, such as the Centers for Disease Control and Prevention, the Centers for Medicare & Medicaid Services (CMS) and international health organizations.

Increased data privacy and information security risks may exist with remote employees. They may be more susceptible to unsecured networks, mobile devices, social networking and other technologies that may not be encrypted or enabled for privacy mode. You should consider these heightened risks when performing continuous monitoring activities, and determine whether your audit plans and programs are adequate to assess these increased risks.

Supply chain and vendor management

Many healthcare providers have been facing shortages of PPE—N95 respirator masks, gloves, face shields—in the supply chain. Providers need to take action to ensure personnel in the front lines have sufficient supplies to protect themselves and patients.

Critical vendors or service providers may fall ill, become insolvent, or otherwise be unable to perform their contractual obligations in a health crisis. The result can be severe disruptions to providing care and managing infection risk for your patients and care givers.

You should consider these risks as your organization engages in inventory management and contingency strategies to help stretch PPE available supplies during shortages and to allocate the supplies to the most critical needs.

Treasury, cash flow and liquidity

Healthcare organizations need to thoroughly understand their available capital and liquidity resources and assess the current treasury management system as immediate challenges are caused by COVID-19. Various new cash sources such as bank loans, CARE Act grants, and CMS accelerated/advance payments need to be accurately tracked and effectively monitored.

Federal agencies have traditionally audited how funds were used in emergencies, followed by a surge in enforcement activity a few years after the massive relief packages. Your role in the early stages of relief can be to assist in identifying preventive controls to avoid misuse of funds and poor documentation of spending.

Revenue shortfalls from suspended elective surgeries may result in a shortage of funds to maintain staffing levels and procure inventory for emergency use. You can assess how well treasury processes are functioning in managing capital and liquidity risks amid the pandemic, including COVID-19 risk assessment and mitigation are exceptionally time sensitive.
bond covenant compliance risks with bond holders and contractual compliance with financial counterparties.

**Telehealth**

CMS expanded the availability of telehealth services by lifting numerous age, credentialing, geographic and reimbursement restrictions on hospital systems, to limit the infection risk to the public. Physicians and other providers need to be rapidly trained to use third-party platforms. Applications need to be vetted to ensure audio and camera quality does not compromise the ability to conduct remote screenings and examinations.

Third-party applications can introduce privacy risks if they are not encrypted and enabled for privacy modes. Providers need telehealth encounters to comply with certain regulatory standards to ensure payers reimburse them. Consider the risks and opportunities as your organization scales up telehealth programs. Also, evaluate for Health Insurance Portability and Accountability Act compliance.

**Regulatory change management**

COVID-19 led to numerous regulatory changes and revisions, requiring organizations to closely interpret and communicate the changes and revisions to business functions for processing and implementation. An example is the waiver of the 3-hour rule, which requires that patients in an inpatient rehabilitation facility receive 3 hours of therapy on 5 of 7 consecutive days (15 hours per week). Also, permission was granted for acute care hospitals to house other patients due to capacity limitations. You can play a key role in ensuring business process changes are communicated and implemented compliantly.

**Revenue cycle**

Hospitals are losing significant dollars on COVID-19 cases based on current reimbursement rates, and are financially strapped due to the loss of elective surgeries—a primary source of revenue. Management is presented with new challenges such as navigating increased bad debt from insurance and employment loss, and front-end limitations involving patient access in remote locations.

Billers, coders, coordinators and other revenue cycle employees may not be able to meet the increasing demands and changes taking place in the registration and billing functions. Payer and government guidelines have temporarily approved enhanced reimbursement for telehealth. Payers for COVID-19 testing and treatments are waiving out-of-pocket amounts for patients.

Internal audit can provide assurance across the revenue cycle continuum to detect process breakdowns that jeopardize the realization of revenue.

**Public disclosures**

COVID-19 presents challenges in estimating the risks and uncertainties caused by the pandemic that may need to be disclosed in the financial statements. The month-end financial reporting process could be delayed due to furloughs and inefficiencies of remote staff. The source and quality of the estimates needed, such as reserves for accounts receivable valuations, could be jeopardized.

You have a role in assessing financial and reporting risks and controls to ensure the COVID-19 impact is being recognized and addressed.
Workforce strategy and facility management

Healthcare systems in the geographic areas hardest hit by COVID-19 have been overwhelmed. The result has been overworked healthcare personnel, long delays for patients to receive testing and care, and the use of nontraditional work settings, such as homes or temporary facilities. Mobile testing locations and offsite facilities have been set up that require new physical workspaces. ERs and ICUs are using all of their available space.

As an organization’s employee base and its clinical services operate more remotely, anticipating and recognizing all the hidden risks from decentralized settings become difficult. Training and supervision in a remote arrangement introduce different risks, and social distancing measures may impact culture for the long term.

Organizations need to rethink their human resources functions and create new processes for supporting both clinical and administrative workers.

Monitor the results of employee engagement surveys, listen carefully when doing audit interviews, observe working conditions, and connect the dots regarding issues identified in related audits. The information you gather and analyze can help address workforce strategy and facility management issues in your organization.

Conclusion

COVID-19 created a new reality for healthcare payers and providers. COVID-19 elevated some latent risks into the forefront and created new risks in an uncertain environment. A rapid response program can help your organization focus on the key areas where the risk profile has changed for your organization. A rapid response program provides a blueprint for you to follow to assist your organization’s time-sensitive move to its future state.

Internal audit needs to be responsive and agile in understanding the risks to the organization, what sort of controls need to be in place and how to discuss the risk and controls with executive and board leadership. By helping to reduce the risks tied to operations, finance, technology and staffing, you can prove yourself as a trusted advisor and can help improve your organization’s value to its patients and communities.

Healthcare organizations need to thoroughly understand their available capital and liquidity resources.

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