



**POLICY TITLE:** Risk Assessment Methodology

**Responsible Department:** Audit and Compliance

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**SUBMITTED BY (AUTHOR):** Wendy Kemp

**Title:** Corporate Assistant Vice President, Audit

**APPROVED BY:** Beth Gillis

**Title:** Corporate Assistant Vice President, Compliance

**APPROVED BY:** Karen Brady

**Title:** Corporate Vice President and Chief Compliance Officer

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#### **SUMMARY & PURPOSE:**

The risk assessment methodology describes the goals of the risk assessment, the audit universe and how it is determined, the risk model and application, the evaluation of the assessment results, and the monitoring of goals. The assessment incorporates a process to identify, assess, and evaluate the relevant fraud risks that confront the organization.

#### **POLICY:**

1. The primary objective of this risk assessment is to develop a risk-based audit workplan for the upcoming fiscal year. A risk-based work plan will allow us to:
  - a. Perform integrated audits that combine traditional financial/operational auditing skills with compliance and information systems expertise; and
  - b. Prioritize the highest risk areas so that the department may utilize its resources efficiently and effectively.

#### **SCOPE/APPLICABILITY:**

This policy applies to individuals within the Audit and Compliance Department.

#### **PROCEDURES TO ENSURE COMPLIANCE:**

1. Define the Audit Universe:

The organization's audit universe is defined by identifying key 'auditable entities' or responsible areas with specific internal control elements and business risks. To define the audit universe for the organization, the following will be performed:

  - a. Facilitate interviews with key personnel throughout the organization;
    - i. Fraud risks may be incorporated into, or performed prior to, the interview process in order to assess relevance and applicability to the organization.
  - b. Identify as many material business processes and related factors as possible through the use of balance sheet and income statement analytic reviews and review of the organization's long range plan;
  - c. Review the current OIG Work Plan and OIG Supplemental Guidance to decide which areas are of greatest risk to the organization;
  - d. Evaluate industry and regulatory guidance and "headlines"; and
  - e. Consider the current year audit results (both internal and external).

**2. Apply the Risk Model:**

The risk assessment model was developed by defining specific risk attributes. The risk model will be applied to the risks identified through the process described in #1 above. The attributes consider both the likelihood of occurrence and the impact of occurrence.

**a. Impact of Occurrence:**

(i.e. should the risk occur, the extent to which it could have an adverse impact)

- i. Financial impact – e.g. material to the financial statements as a whole.
- ii. Operational impact – e.g. barrier to patient care.
- iii. Reputation impact – e.g. compliance implications.
- iv. Strategic impact – e.g. market share erosion.

**b. Likelihood of Occurrence:**

(i.e. probability that a risk could occur, regardless of the potential magnitude of effect)

- i. Audit History – e.g. results of prior audits
- ii. Susceptibility to theft/errors – e.g. fraud, waste and abuse.
- iii. Process or system changes – e.g. information and reporting.
- iv. Process or system complexity – e.g. critical process.
- v. Adequacy of control environment – e.g. ability of management to override or circumvent controls.

Guidelines for key predictors/indicators associated with each of the risk attributes above have been defined. A rating scale is applied to the key indicators for each risk and the scores weighted based on the risk attribute.

**3. Evaluate Results of the Assessment:**

The risk factor results will be achieved by applying the risk model to each auditable activity (identified above). These results will be stratified to establish thresholds for high, medium and low risk factors. The higher risk areas are then mapped to past and current audit activities.

Results from this risk assessment process will determine the workplan and provide a framework in which effective and efficient financial, compliance and operational audits can be completed.

The results of the assessment along with our proposed audit workplan for the upcoming fiscal year will be provided to the South Miami Hospital Board of Directors and the Audit and Compliance Committee of the Board of Trustees for consideration and approval.

**4. Monitor:**

As operations, budget and regulatory updates come to light/change, and new initiatives are implemented during the year we will reassess the audit workplan based upon prevailing issues and risks. Should needed changes be identified, the revisions will be presented to the Audit and Compliance Committee for consideration and approval.

**SUPPORTING/REFERENCE DOCUMENTATION:**

International Standards for the Professional Practice of Internal Auditing (Standards)  
Office of the Inspector General Compliance Program Guidance  
Office of the Inspector General Practical Guidance for Health Care Governing Boards on Compliance Oversight  
South Miami Hospital Corporate Integrity Agreement

**RELATED POLICIES, PROCEDURES, AND ASSOCIATED FORMS:**

BHSF Administrative Policy: 801 Department Responsibilities and Charter Policy – Audit and Compliance  
BHSF Departmental Policy: 74730-803 Risk Assessment Methodology

**ENFORCEMENT & SANCTIONS:**

Enforcement of this policy will be performed by Baptist Health South Florida's Audit and Compliance Department.