Risk Management to Contingency Planning

ICD-10 Operational Readiness
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Agenda

- Definitions
- Relationship between risk management, contingency planning and operational readiness
- Let us talk “risk management”
- The risk management and contingency planning process structure
- Obtaining operational readiness
- Benefits
- Appendices
DEFINITIONS
Risk Management

What is it?

- Risk is …
  - possibility of an event;
  - impacting the achievement of objectives; and,
  - measured in terms of impact and likelihood.”

- Risk appetite is … level of risk that is acceptable by the organization.

- Risk Management is … “A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objective.”

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Contingency Plan

What is it?

- **A process and documentation to remediate identified business impact events to ensure the entities existence and profitability**, as an on-going concern.
  - Operational efficiency and effectiveness
  - Reporting accuracy, completeness, and timeliness
  - Compliance (industry, associations, and governmental)
  - Strategic alignment (industry, associations, etc…)

- Remediation may take one of three forms:
  - Resolution (root cause/internal solutions)
  - Acceptance (both risk and impacts)
  - Transference of risk (legally through contractual agreements)
Operational Readiness

Defined as:

- As defined by US Code, operational readiness is “the capability of an organization, an asset, a system, or equipment to perform the missions or functions for which it is organized or designed.” (6 USC § 741)

- ICD-10 Operational readiness could be defined as:
  - The ability to receive, adjudicate and deliver an ICD-10 enabled transaction.
  - Without impacting the existing business processes.
WHAT IS THE RELATIONSHIP BETWEEN RISK MANAGEMENT, CONTINGENCY PLANNING AND OPERATIONAL READINESS?
To maintain business continuity / operational readiness the relationship must be:
- Continuous
- Interdependent
- Complete
- Timely
- Cross-functional
Impacts of Inefficient and/or ineffective Risk Management

- Delayed contingency plans
- Inappropriate prioritization of issue remediation resources
- Negative publicity
- Potential compliance issues
- Inaccurate management decisions
- Unexpected business disruptions
- MORE MONEY $$$$
Impacts of Inefficient and/or ineffective Contingency Planning

- Inappropriate prioritization of issue remediation resources
- Negative publicity
- Potential compliance issues
- Inaccurate management decisions
- Operationally funded remediation (not capitalized)
- Unexpected business disruptions
- *MORE MONEY $$$$*

- Risk Management
- Operational Readiness
- Contingency Planning
- Contingency Plan Execution
LET US TALK “RISK MANAGEMENT”
Committee of Sponsoring Organizations (COSO) 2013 framework provides for:

- 3 objective categories:
  - operations,
  - reporting, and
  - compliance
- 5 components of managing risk:
  - controls (ie, policy)
  - risk assessment,
  - control activities (ie. trend analysis),
  - information and communication, and
  - monitoring activities.
- Provides adaptability to organization structure
# Enterprise vs. Operational Risk Management

## Differences

<table>
<thead>
<tr>
<th>Enterprise Risk Management</th>
<th>Operational Risk Management</th>
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<tbody>
<tr>
<td>Top-down approach</td>
<td>Bottoms-up approach</td>
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<tr>
<td>Corporate level risk (C-level)</td>
<td>Functional level risk (Mgmt level)</td>
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<tr>
<td>Focused on significant events</td>
<td>Focused on significant events</td>
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<tr>
<td>- Strategy</td>
<td>- Process, system and resource</td>
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<tr>
<td>- Compliance</td>
<td>- Legal</td>
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<td>- Legal</td>
<td>- Public relations</td>
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Enterprise & Operational Risk Management

Using both provides: greater opportunity to identify risk events.

- Provides a complete corporate scope
  - Corporate
  - Operations

- Includes all risk categories:
  - Strategy
  - Compliance
  - Reporting
  - Operations
HOW DO YOU STRUCTURE THE RISK MANAGEMENT AND CONTINGENCY PLANNING PROCESS?
General Structure

- Appends to or integrates and leverages the Program Structure.

- Organizational structure includes 4 levels
  - Program Organization
    - Governance
    - Program / Management
    - Function
  - Risk Management
    - Enterprise
    - Operational / functional
Functional – Level

- Includes all relevant business areas
- Provides the operational risk assessment and the following functionality:
  - Functional testing
  - Issue identification
  - Business impact assessment (specific area impact)
  - Issue management and remediation
  - Issue reporting to / from Enterprise – Level
Enterprise – Level

- Includes project/business leads and SMEs

- Provides a cross-functional **operational risk assessment**

- Identifies:
  - Transfer of risk
  - Existing remediation
  - External risks

- Validates the functional risk assessment

- Communicates significant risk to the Management – Level.
Management – Level

- Includes program leadership and business directors/leads
- Provides the *enterprise risk assessment*
- Identifies strategic and/or industry level risk/remediation.
- Provides functional direction and guidance
- Communicates project status and significant risk to the Governance–Level.
Governance – Level

- Includes the Corporate champion (VP or higher), Senior Level management, and Program leadership
- Provides the *enterprise risk assessment*
- Provides general oversight, strategic direction and guidance
- Approves funding.
USING RISK MANAGEMENT AND CONTINGENCY PLANNING TO OBTAIN OPERATIONAL READINESS?
Business Impact Assessment Process

- Integrated into the:
  - Risk management process
  - Program System Development Life Cycle (SDLC)

- Includes full scope of enterprise knowledge

- Five (5) continuous parts following the issue identification:
  - Defining
  - Assessing
  - Remediating
  - Monitoring
  - Documenting
Issue Definition

- Critical step of the assessment process
- Includes a clear concise issue statement that is:
  - Factual,
  - Quantifiable
  - Qualifying.
  - NOT vague and ambiguous.
- Answer some of these questions:
  - What is the impact event?
  - What or how does the event impact the business?
  - Who is impacted?
  - How often does it occur (time parameters)?
  - How does the event impact vary from the pre-defined operational metrics.
- Document
Issue Assessment

- A consistent metric to prioritize the issue.

- Uses the facts obtained in the issue definition process.

- Most business impact assessments include the following variables:
  - Impact
  - Frequency
  - Current remediation effectiveness (optional)

- Each assessed on a scale of 1-10

- Assessment rating = Impact X Frequency X CRE (Lowest impact = 1; and, Greatest = 1000)

- Document
Remediation Identification

- Provides an opportunity to identify enterprise remediation alternatives

- Remediation can consist of:
  - Root cause remediation (system redesign, business rule configurations, business process redesign, etc...)
  - Acceptance / monitoring (within management’s range of risk/business impact appetite)
  - Transference (legal or contractual conveyance of risk)

- Document
Remediation Monitoring

- Most often overlooked step in the process
- Biggest myth of risk management is “ONCE FIXED ALWAYS FIXED”
  - SYSTEMS - System logic is in a constant mode of flux during system development
  - TIME - Business changes with time
  - LEADERSHIP - Risk appetite changes with leadership and industry focus
- Periodically review remediated issues
- Document
Documentation

- Provides the business and IT Program a:
  - Point of reconciliation for the business and IT Program
  - Source of information to prioritize remediation efforts

- Critical for supporting:
  - Due diligence
  - Management decisions
LIST OF BENEFITS FOR OPERATIONAL READINESS
Benefits

- Increased scope of issue identification
  - Internal (Enterprise and strategic)
  - External

- Holistic assessment of identified business impact / risk events.

- Added value of ICD-10 budgeted dollars through the prioritization of business impact remediation efforts and resources.

- Documentation to support due diligence

- OPERATIONAL READINESS
APPENDIX
Appendix B

Functional Structure

- Governance Level
  - Steering Committee (Business Stakeholder Senior Leadership)
  - Status Updates / Governance (ie. Funding)

- Management Level
  - Controlled (Business Stakeholders, Enterprise Risk Management, and Internal Audit)
  - Significant issues without remediation / Provide management decisions

- Enterprise Level
  - CD/IO Program Management
  - (System Development Life Cycle)
  - Issues assessed > management "risk appetite"?

- Cross-functional Team Assessment
  - Subject matter expert (SME) representation from each functional area
  - Manage the remediation

- Functional Level
  - Information Technology
  - Service Organization
  - Core Management
  - Constraining
  - Finance

External KDFocused Organizations
Presenter

ICD-10 Bio

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ICD-10 Responsibilities:
Delivery Systems Business Lead
Provider Testing Lead
DS Operational Readiness Lead
Enterprise Operational Readiness Approach Team

WEDI: ICD-10 Transition Sub-Workgroup, Co-Chair