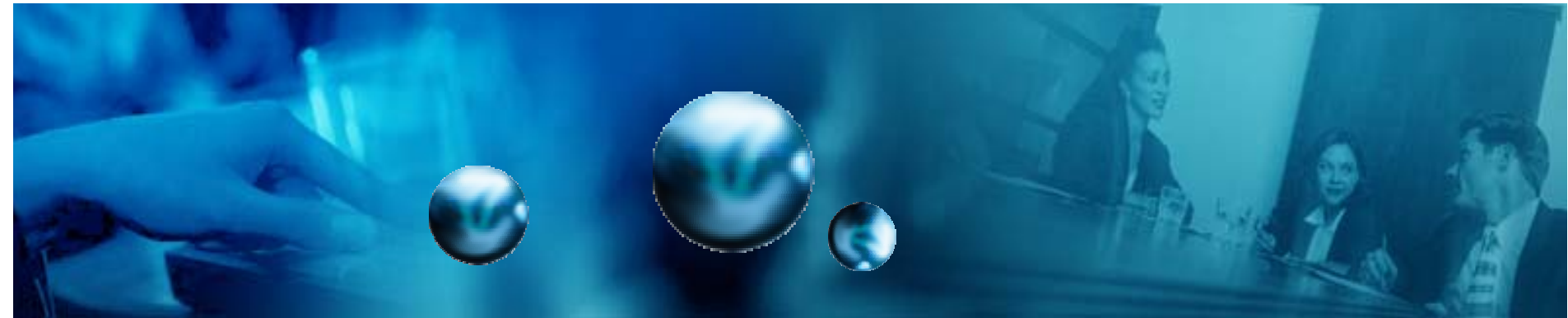


# Enterprise Risk Management Program at HCA

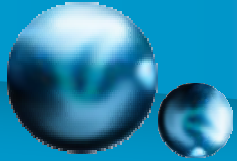


## ERM Roundtable

February 25, 2005

**HCA**

David Hughes, CPA, CIA  
AVP, ERM Office



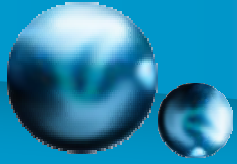
# Agenda

**1. Overview of HCA**

**2. Evolution of our ERM Program**

**3. Risk Identification**

**4. Management & Board Reporting**



# About HCA

- Corporate Headquarters in Nashville, TN
- 190 Hospitals
- 91 Surgery Centers
- 23 states, England & Switzerland
- Public Company
- \$21B Total Assets
- \$22B Annual Revenue
- 190,000 Employees
- 150 Internal Auditors





# Internal Auditing (New Definition)

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

- *The IIA’s Professional Practices Framework*

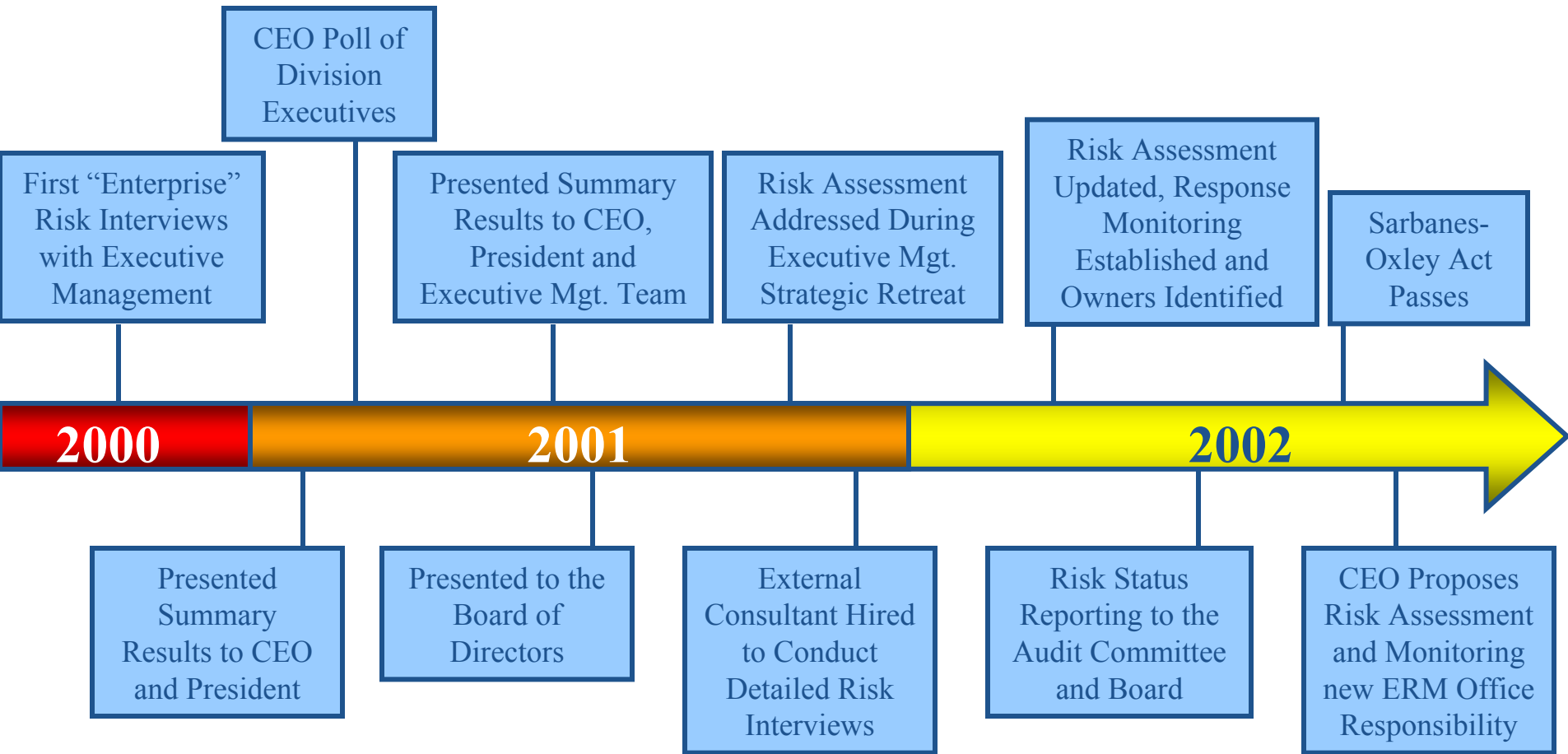


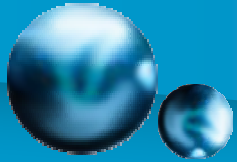
## Roles and Responsibilities

- The CEO is ultimately responsible and should assume ownership for ERM.
- The board of directors provides important oversight to ERM, and is aware of and concurs with the entity's risk appetite.

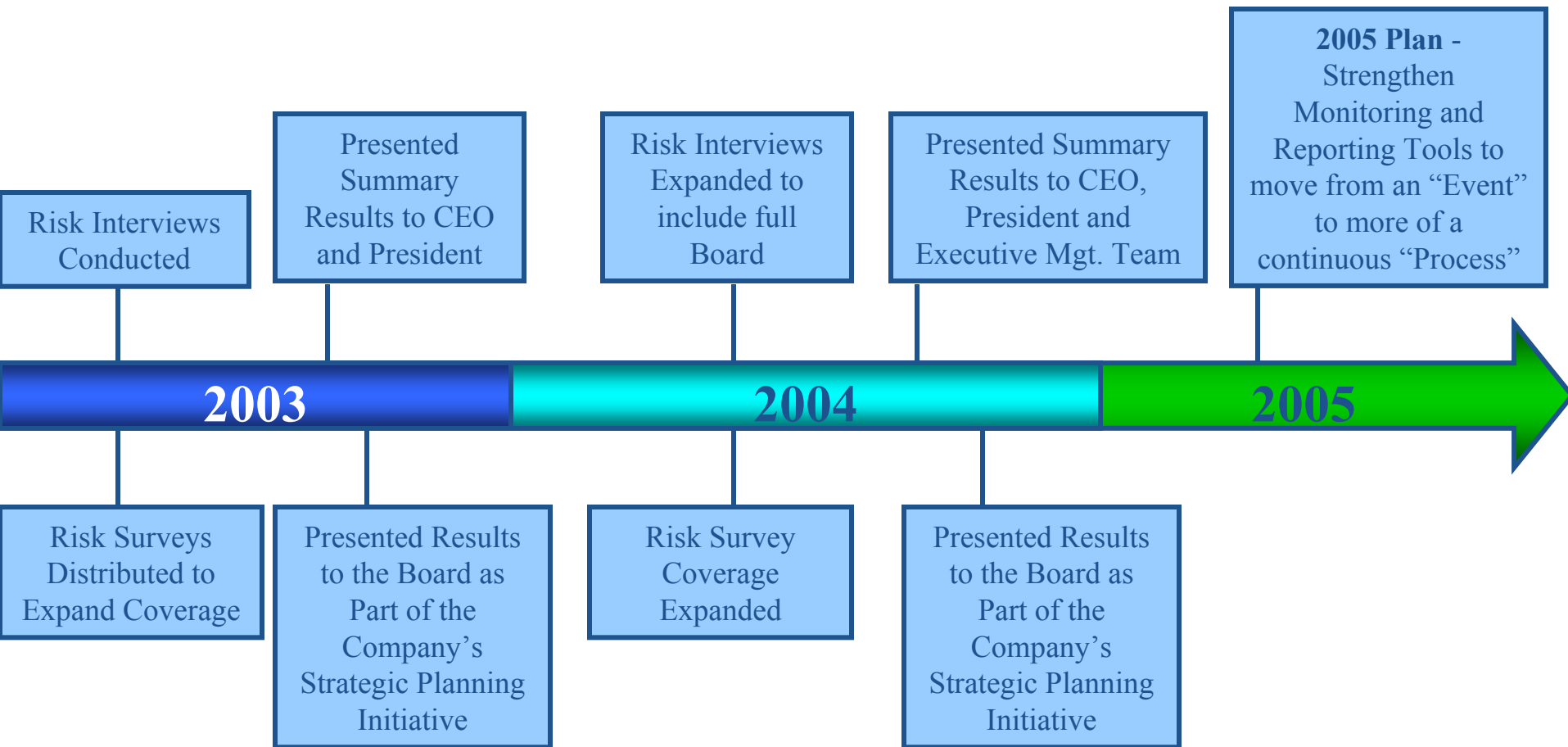
*- COSO ERM Integrated Framework - Executive Summary*

# Evolution of Our ERM Program





# Evolution of Our ERM Program (continued)





# Enterprise Risk Management Lines of Reporting and Accountability - 2005

**Enterprise Risk Management and  
Business Continuity Planning Office**

**Internal Audit  
Department**

**Enterprise Program  
Management Office (EPMO)**

**Jack Bovender  
CEO**

**Marilyn Tavenner  
Group President OP Services**

**Joe Steakley  
SVP, Internal Audit**

**Bruce Moore  
COO, OP Services**

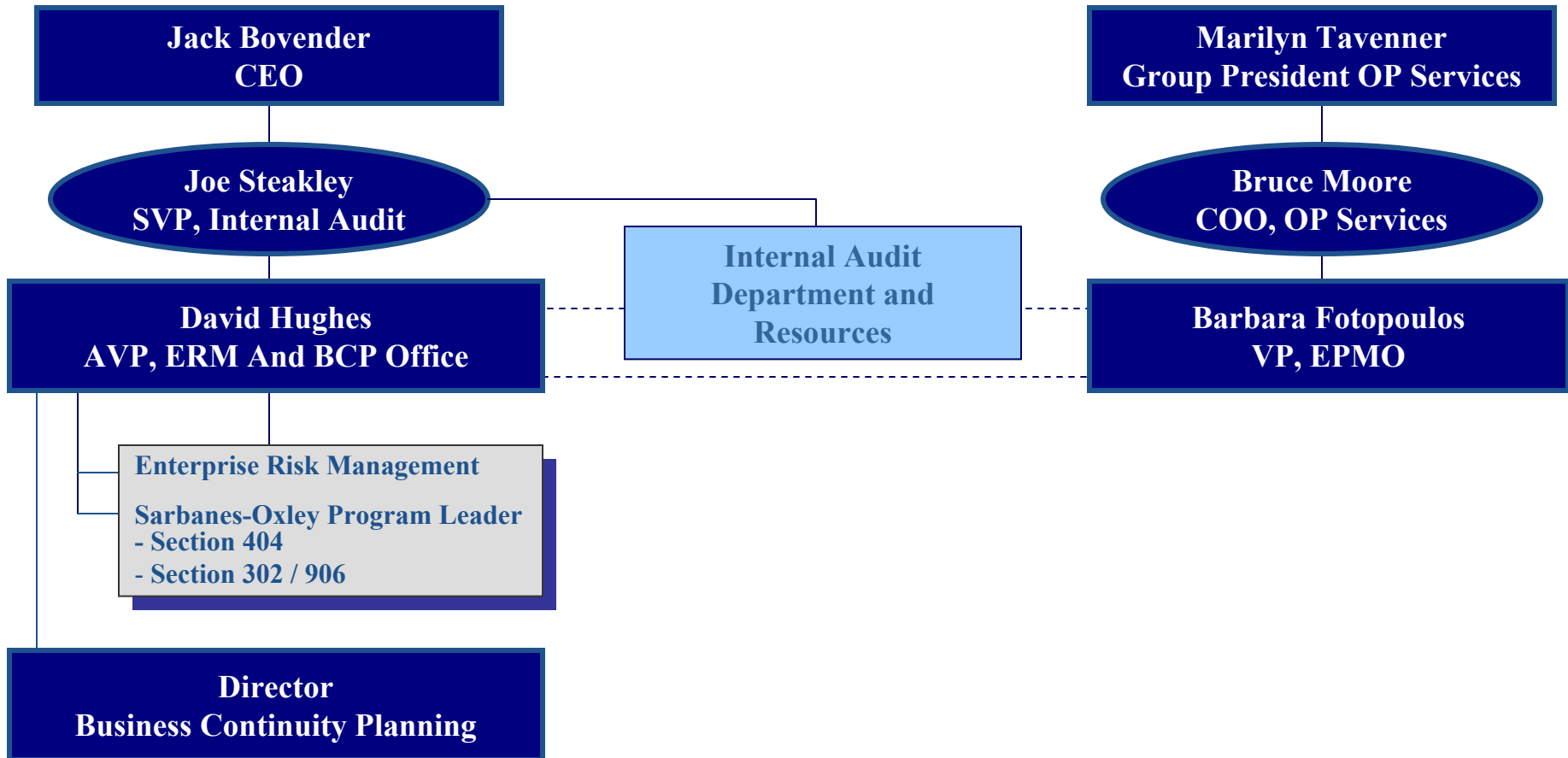
**David Hughes  
AVP, ERM And BCP Office**

**Internal Audit  
Department and  
Resources**

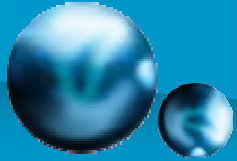
**Barbara Fotopoulos  
VP, EPMO**

**Enterprise Risk Management  
Sarbanes-Oxley Program Leader  
- Section 404  
- Section 302 / 906**

**Director  
Business Continuity Planning**







# Enterprise Risk Management Program Objective at HCA

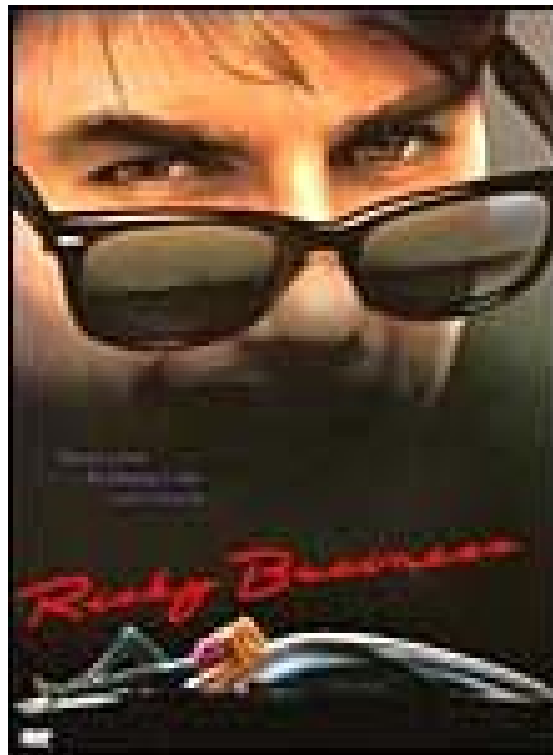
Establish an integrated approach to risk management:

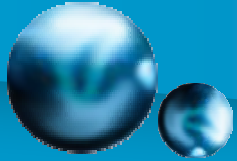
- Drive the risk management process at the strategic and operational levels of the organization;
- Develop risk response processes;
- Monitor performance to provide assurance that the risk management approach is operating effectively to support achievement of the company's objectives; and
- Periodically report to Executive Management and the Board on these initiatives.



# Enterprise Risk Management

## Risk Identification and Assessment





# Risk Assessment

## Scope of Risk Interview / Survey Process

### Interviewed

- All 12 Non-Management Members of the Board of Directors
- All 24 Members of Executive Management
- All 14 Division Presidents

### Surveyed

- All 14 Division CFOs
- 27 Hospital CEOs
- 30 Hospital CFOs



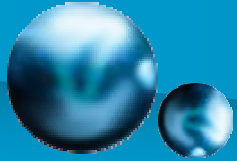
# Risk Assessment

## Risk Identification Process

We asked the following question

*“What are the top three business risks (in priority order) the Company faces over the next two years that could have a significant adverse effect on the Company’s ability to achieve its strategic and/or financial objectives?”*

Interviewees’ top three risks were ranked on a 5, 3, 2 point scale respectively

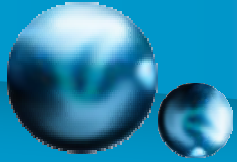


# Ranking Process

Management's responses were assigned values based on a 10 point scale. Their first risk was assigned a value of "5", the second a "3" and the last one a "2".

Many of the participants disclosed additional risks that were not in their top three but they felt were risks that they were concerned about. These additional risks (2nd Tier) were marked with an "X" and were not included in the value ranking.

Specific comments of each executive were kept confidential.



# Response Summary

	Executive # 1	Executive # 2	Executive # 3	Executive # 4	Total
Risk 1	5	5	3		13
Risk 2	3		5	2	10
Risk 3	2	2		5	9
Risk 4		3	2		5
Risk 5	X		X	3	3
Total	10	10	10	10	40



# Risk Assessment Survey

Risk Assessment Survey - Message (Rich Text)

File Edit View Insert Tools Actions Express Help


Send SnagIt Window

Message Risk Assessment Survey

To... HCAInternal.AuditReport@HCAHealthcare.com

Subject: Risk Assessment Survey

## HCA Internal Audit Risk Assessment Survey



The HCA Enterprise Risk Management Office is performing our 2004 HCA Business Risk Assessment and identifying the key risks facing the Company over the next two years. The process includes interviews or surveys of executive management, all board members, and group, division and facility management. You have been selected to participate in the Assessment. The attached survey allows us to obtain perspectives from across the company about our business risks. We have assembled a partial list of potential risks facing the company for you to rank. Also, you can add other business risks that you believe to be significant company-wide risks by selecting the "OTHER" tab, which will allow you to type in a free form text response, rather than using one of the listed potential risks. Please add only one risk per each "OTHER" selection box.

This process should take less than five minutes to complete. We request you to respond to the following question:  
What are the top three business risks (in priority order 1,2,3) the Company faces over the next two years that could have a significant adverse effect on the Company's ability to achieve its strategic and/or financial objectives?"

The results from this survey and other interviews will be compiled and presented in summary form to executive management and the Board of Directors in September, 2004. We are requesting that you respond no later than August 20, 2004.

[Click the button "Answer Survey" below to respond to the survey.](#)

[Answer Survey](#)

**If you have any technical problems completing the survey, please contact Yun Huang at (615) 344-1267 or email her at [Yun.Huang@hcahealthcare.com](mailto:Yun.Huang@hcahealthcare.com).**

**If you have any questions about the contents of the survey, please contact David Hughes at (615) 344-2025 or email him at [David.Hughes3@hcahealthcare.com](mailto:David.Hughes3@hcahealthcare.com).**



# Risk Assessment Survey

Risk Assessment Survey - Message (Rich Text)

File Edit View Insert Tools Actions Express Help

Send Snagit Window

Message Risk Assessment Survey

## HCA Internal Audit Risk Assessment Survey

**Risk Assessment Survey**

**Potential Key Business Risks**

- 1) Access to Capital
- 2) Acute Care Competition
- 3) Capital Deployment
- 4) Controlling Supply Costs
- 5) Corporate Integrity Agreement Compliance
- 6) Downturn in Volume Growth
- 7) Increasing Labor Costs
- 8) Information Technology Initiatives
- 9) Labor Unions
- 10) Management Succession Planning
- 11) Niche Competition\Specialty Hospitals\Syndication
- 12) Nurse And Clinical Staff Shortages
- 13) Outpatient Competition
- 14) Patient Safety
- 15) Physician Malpractice Costs
- 16) Physician Shortages
- 17) Pricing Pressures
- 18) Quality-Based Reimbursement
- 19) Regulatory Environment Changes
- 20) Strategic Issues
- 21) Uninsured\Underinsured – Bad Debts
- 22) Universal Healthcare Coverage

**Survey Questions**

1) Please select the most important key risk

Comments below for Risk #1:

2) Please select the second most important key risk

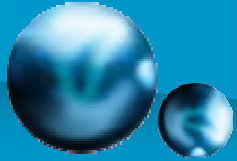
Comments below for Risk #2:

3) Please select the third most important key risk

Comments below for Risk #3:

Please click "Send" button from the upper left corner to submit the survey when finished.





# Risk Assessment

Board Members

#

Prior year risk  
assessment ranking

## 2004 Top Business Risks

### 1 Adverse Changes in Regulatory Environment

2

XX%

- Sub-risk
- US Government actions that significantly reduce the company's revenues (Medicare cuts, etc.)
- Sub-risk

### 2 Bad Debts

XX%

- Growth of uninsured and underinsured patients
- Increasing number of patients will elect to go without insurance coverage due to cost of insurance



# Risk Assessment Interview Summary Board and Corporate Management

Prior year risk  
assessment ranking = (#)

## Aggregate Board, Corporate and Division Management

1. Risk
2. Risk
3. Risk
4. Risk
5. Risk
6. Risk
7. Risk
8. Risk
9. Risk
10. Risk

## Board of Directors

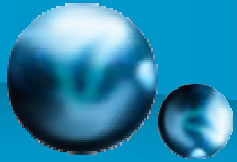
1. Risk (2)
2. Risk
3. Risk (1)
4. Risk
5. Risk
6. Risk (3)
7. Risk
8. Risk
9. Risk
10. Risk (5)

## Executive Management

1. Risk (9)
2. Risk (1)
3. Risk (2)
4. Risk (10)
5. Risk (3)
6. Risk (4)
7. Risk
8. Risk
9. Risk
10. Risk (5)

## Division Management

1. Risk (2)
2. Risk (7)
3. Risk (1)
4. Risk (3)
5. Risk (4)
6. Risk (6)
7. Risk
8. Risk
9. Risk (5)
10. Risk



# Risk Assessment Interview Summary Hospital Management

Prior year risk  
assessment ranking = (#)

## Aggregate Hospital CEOs and CFOs

1. Risk
2. Risk
3. Risk
4. Risk
5. Risk
6. Risk
7. Risk
8. Risk
9. Risk
10. Risk

## Hospital CEOs

1. Risk (7)
2. Risk (5)
3. Risk (1)
4. Risk (3) & (4)
5. Risk (2)
6. Risk
7. Risk (8)
8. Risk
9. Risk
10. Risk

## Hospital CFOs

1. Risk
2. Risk
3. Risk
4. Risk
5. Risk
6. Risk
7. Risk
8. Risk
9. Risk
10. Risk



# Risk Assessment

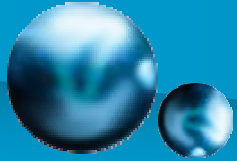
## Summary

### Aggregate Board, Corporate and Division Management

1. Risk
2. Risk
3. Risk
4. Risk
5. Risk
6. Risk
7. Risk
8. Risk
9. Risk
10. Risk

### Aggregate Hospital CEOs and CFOs

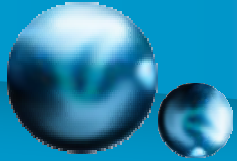
1. Risk
2. Risk
3. Risk
4. Risk
5. Risk
6. Risk
7. Risk
8. Risk
9. Risk
10. Risk



# Next Steps

Using the Company's defined strategy, objectives and risks identified:

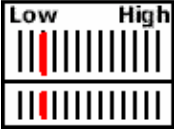
- Identify the risk owners;
- Work with the risk owners to facilitate assessment of the risks identified and to determine the appropriate risk responses;
- Implement control activities to address the risks;
- Monitor effectiveness of the controls; and
- Report the results to Executive Management and the Board of Directors.



# Risk Assessment

## Example of Risk Reporting

### HCA Business Risk Assessment

Risk	Owner(s)	Category	10K	Potential Exposure*	Summary
1. Tone at the Top – Maintaining an effective governance structure to oversee compliance with laws and regulations and ensure the accuracy of financial reporting	(Name)	Operational	Yes	Current Status  Beginning Status	After the management change in 1997, the major focus was to establish an executive team focused on ethical conduct and promoting “patient first” mission and values throughout HCA (i.e., committed to the care and improvement of human life, act with absolute honesty, integrity and fairness). The Audit Committee (in conjunction with Internal Audit and E&Y) oversees key financial and legal risks to the company. The Ethics & Compliance Committee (in conjunction with FTI, Governmental Operations Support, and Internal Audit) oversees the compliance program, which is administered by the Ethics & Compliance Department.

\* Potential Exposure: Likelihood that the risk could have a significant adverse affect on the Company’s ability to achieve its strategic and/or financial objectives. The beginning potential exposure status is as of January 1, 2004 with status estimated using a 2-year forward view.



# Questions and Answers



David Hughes (615) 344-2025

[David.Hughes3@hcahealthcare.com](mailto:David.Hughes3@hcahealthcare.com)