Enterprise Risk Management Program at HCA

ERM Roundtable
February 25, 2005

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 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

2000
- First “Enterprise” Risk Interviews with Executive Management

2001
- Presented Summary Results to CEO, President and Executive Mgmt. Team
- Risk Assessment Addressed During Executive Mgt. Strategic Retreat
- Risk Status Reporting to the Audit Committee and Board

2002
- Risk Assessment Updated, Response Monitoring Established and Owners Identified
- Sarbanes-Oxley Act Passes
- CEO Proposes Risk Assessment and Monitoring new ERM Office Responsibility

HCA
Evolution of Our ERM Program (continued)

2003
- Risk Surveys Distributed to Expand Coverage
- Risk Interviews Conducted

2004
- Presented Results to the Board as Part of the Company’s Strategic Planning Initiative
- Risk Survey Coverage Expanded
- Risk Interviews Expanded to include full Board
- Presented Summary Results to CEO, President and Executive Mgt. Team

2005
- Presented Results to the Board as Part of the Company’s Strategic Planning Initiative
- 2005 Plan - Strengthen Monitoring and Reporting Tools to move from an “Event” to more of a continuous “Process”
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

HCA
HCA

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
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
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

<table>
<thead>
<tr>
<th>Risk</th>
<th>Executive #1</th>
<th>Executive #2</th>
<th>Executive #3</th>
<th>Executive #4</th>
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<td>10</td>
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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.

If you have any questions about the contents of the survey, please contact David Hughes at (615) 344-2025 or email him at David.Hughes@HCAhealthcare.com.
HCA Internal Audit 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) Disenrollment 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.
2004 Top Business Risks

1. Adverse Changes in Regulatory Environment
   - Sub-risk
   - US Government actions that significantly reduce the company’s revenues (Medicare cuts, etc.)
   - Sub-risk

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

HCA
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<th>Aggregate Board, Corporate and Division Management</th>
<th>Board of Directors</th>
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Prior year risk assessment ranking = (#)
## Aggregate Hospital CEOs and CFOs

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### 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

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2. Risk
3. Risk
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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.

HCA
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

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