



# HCA

Hospital Corporation of America™

## HCA

### Risk Mitigation with ACL Analytics

“The next step for HCA’s audit group is maximizing *ACL* as a value-added tool in data monitoring, using data from company sub-systems and third-party vendors. And we are starting to make that happen at HCA with amazing results. *ACL* technology enables us to institute auditing procedures that are driving best practices throughout the company.”

**Kevin McMahon**, Vice President, Internal Audit & **Chase Whitaker**, Director Internal Audit & Department Lead – Continuous Audit

#### CHALLENGES

- » Myriad of state and federal regulatory constraints
- » Third party billing concerns
- » Rising costs

#### SOLUTION

- » **Applied Analytics**

ACL™ Desktop

#### KEY BENEFITS

- » Cost Containment
- » Identification of vendor billing errors
- » Detection of US \$17 million in duplicate payments
- » Monitoring for compliance with repeatable analytics

#### INDUSTRY

- » Healthcare

#### REGION

- » North America

HCA needed to contain costs and maximize efficiency in the increasingly expensive health services industry. Shareholder pressures and medical inflation created a challenging financial environment for the company. Using ACL technology to implement a monitoring plan, HCA uncovered over US \$17 million in duplicate payments during a single year. HCA auditors have also used ACL technology to identify costly payroll inconsistencies and isolate vendor-billing errors on more than 16,000 units of medical equipment.

#### Customer Profile

HCA owns and operates 200 hospitals and 78 surgical centers in 24 US states, plus private health care facilities in Switzerland and England. The company generates approximately US \$19.6 billion in annual revenues, and holds US \$18 billion in total assets. Headquartered in Nashville, Tennessee, HCA employs about 180,000 people, including 150 internal auditors.

#### Challenges

As a public company traded on the New York Stock Exchange, HCA faces considerable shareholder pressure to maximize growth, revenues, and profit margins while continuing to provide the highest quality patient care. Moreover, the organization derives approximately 40 percent of its revenue from the US health reimbursement model. Therefore, medical inflation – the rising cost of patient care – can severely affect HCA’s bottom line. Scientific advances in medication and surgical procedures, for example, improve health care for patients, but cost more for medical facilities to supply. “Our reimbursements may not increase commensurate with the supply costs of providing care,” explains Kevin McMahon, Vice President, Internal Audit.

The company also faces technological challenges in both storing and analyzing billions of patient and corporate data records on the system mainframe. “We had a lot of ad hoc reporting occurring,” says McMahon. “Because of size limitations on the mainframe and some constraints on capacity, we weren’t able to do a lot of the more granular data analysis.”



Finally, HCA needed to ensure variations in billing and supply practices between individual care sites were not compromising data integrity. Each US state also has different regulatory constraints, which can affect care practices, billing, and insurance transactions. And with labor and medical supplies accounting for the majority (approximately 70 percent) of HCA's total operating cost structure, the company must ensure third-party vendor data is accurate and reliable.

## Solution

HCA chose ACL technology to overcome and manage the data constraints of the system mainframe. It allows HCA auditors to extract specific data sets and perform more targeted analysis of their business risks within pre-set time limits. "We looked at ACL as a way of helping the company contain costs on the mainframe side," says McMahon. "ACL allows us to do a one-time data swipe and then perform more of the iteration and analysis on a desktop level."

HCA auditors have had considerable success using ACL analytics to test human resources and payroll data for inconsistencies. For example, auditors download data sets to search for invalid Social Security numbers. HCA auditors also test for inconsistent employee dates of birth, unusual year-to-date earnings, and improper time sheet coding. "We have identified 30-plus people who elected to resign from the company when we questioned them about their Social Security numbers," McMahon explains. "We also help identify overtime coding or shift differential bonus anomalies as payment beyond the company's prescribed compensation guidelines."

But the most dramatic results have been in purchases and payables. HCA uses ACL analytics to analyze inventory and billing data from third-party vendors, such as equipment suppliers. As part of their contractual agreement, HCA receives monthly copies of key vendors' databases, which include data on inventory and billing, maintenance records, service level coverage, and reported equipment failures. HCA auditors then analyze these records for billing anomalies, improper warranty calculations, and other inconsistencies. In one instance, HCA was billed for covered service during warranty periods on 16,000 different units of equipment.

In addition, the HCA audit team also found millions of dollars in duplicate payments. "Previously, we'd find a duplicate payment, call the vendor and say, 'We paid you twice for the same invoice. Send the money back.' Now, our system helps prevent the payment from ever being released. ACL has helped stop \$17 million from ever going out the door," says McMahon. Conducting front-end data analysis on vendor databases saves time and minimizes losses – greatly increasing the efficiency of HCA's billing processes.

For compliance with Section 404 of the Sarbanes-Oxley Act, HCA currently runs about 40 repeatable analytics including year-end accruals, dormant accounts, unusual ledger transactions, and extreme percentage changes. By testing for unusual balance sheet and income statement activity, HCA auditors can report on company financial data with greater confidence and quality assurance. "We use ACL to do comparative analysis by looking for unnatural account changes," says McMahon. "It works into Sarbanes-Oxley, but we did it for business reasons."

## Results

HCA uses ACL technology as an innovative tool to:

- Contain costs of rising medical inflation and ensure the application of significant compliance procedures under considerable public pressure
- Identify vendor billing errors on 16,000 units of medical equipment
- Locate US \$17 million in duplicate company payments over the course of one year
- Test human resources and payroll data for costly reporting and coding inconsistencies
- Monitor balance sheets and income statements for unusual activity and unnatural account balances
- Ensure compliance with Section 404 Sarbanes-Oxley legislative requirements by running repeatable analytics.

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