



2021 U.S. Health System CFO and Audit Committee priorities

KPMG Health System CFO and Audit and Compliance Committee Chair Pulse Survey



Executive summary

In October 2020, we conducted a pulse survey of 10-12 leading health system Chief Financial Officers (CFOs) and 8-10 Audit and Compliance Committee Chairs in conjunction with our quarterly series of peer exchanges. In December 2020, we repeated the survey on a larger scale with over 50 of these leaders responding. Respondents were asked to rate 16 priorities in terms of importance to their current agendas as well as their preparedness. These were rated on a scale of 1 to 10 with 10 being the highest. **Figure 1** at right shows the 16 priorities.

Figure 1 – Sixteen priorities presented to CFOs and Audit and Compliance Committee Chairs

Priority	Description
Internal Controls	Establishing sunset provisions for any internal control changes during the COVID-19 pandemic, and removing or amending these changes as the pandemic subsides.
Political Change	Preparing for potential changes in tax, regulation, or the industry more generally with the new Administration and Senate.
Regulatory Change	Monitoring and responding to regulatory developments including compliance and audits of COVID relief funds, price transparency rules, the False Claims Working Group, etc.
Changing payor activity	Insurance shifts and pressure on pricing including the impact of the price transparency reporting rules effective January 2021 and the potential for price dislocation as well as data integrity.
Third Party Risk	Enhancing third party risk management particularly around supply chain including reviewing vendor integrity, supply chain resilience and shifts to onshore production.
Managing Physician Relationships	Clinical integration as well as monitoring contracting, compliance, compensation etc.
Cybersecurity risk	Continuing vigilance around cyber including risks due to a remote workforce.
Cost Reduction and Working Capital Management	Addressing growing costs, margin management, and modernizing the front, middle, and back office aligned with a dynamic top line.
Harnessing ERM to better manage and anticipate risk	Enhancing ERM to embrace more leading practices around data and analytics (structured analysis) and expert elicitation (unstructured analysis).
Emerging cultural risks	Managing emerging risks (e.g. optics management, tone at the top, risk culture, etc.).
M&A/Divestment	Opportunities for M&A and divestment; as well as threats/opportunities from new entrants and governing joint ventures, partnerships, etc.
Changing care delivery models	The risk/opportunity posed by customer demand for changed care delivery models including telehealth – being positioned to harness the opportunity whilst managing the new risks of these models and the impact on revenue cycle management.
Sector Economics	The risk of economic changes that impact healthcare systems specifically and their impact on revenues, costs, and investments.
Planning for uncertainty	Planning and forecasting in today's environment including volume recovery, capacity management, workforce management, and other related inputs particularly in light of the resurgence in COVID cases.
Digital Transformation	People, process and technology-enabled transformation across the continuum of care including cloud ERP, intelligent automation as well as other enabling technologies and the impact on internal controls.
Reinventing work and the workplace	Reinventing work with a virtual workforce (and the regulatory, tax, and HR implications), enhancing enterprise agility and evaluating Finance operating models of the future.

The top five priorities for the CFOs in the December 2020 survey can be found in **Figure 2**, and the top five priorities for the Audit Committee Chairs in **Figure 3**.

In general, the CFOs' priorities were more focused on forward-looking risks and opportunities while the audit committee chairs were focused more on the blocking and tackling risks. This is perhaps a reflection of the specific responsibilities of each group, as the Audit and Compliance Committee Chairs are likely to focus through the lens of risk, compliance, and controls. It's interesting to note that from October to December, changing care delivery models and managing physician relationships both increased as a priority for both groups, perhaps a sign of the expected acceleration of transformation in the industry.

Figure 2 – Top Five priorities for CFOs in December 2020, compared to October 2020.

Rank in Dec. 2020	Priority	Change in rank vs Oct 2020 pilot survey	Importance in Dec 2020 (10=high)	Increase in importance since pilot
1	Cost reduction and working capital management	—	8.5	0.6
2	Cybersecurity risk	+1	8.4	1.1
3	Planning for uncertainty	+1	8.4	1.2
4	Digital transformation	-2	8.1	0.5
5	Changing care delivery models	+5	8.0	1.8

Figure 3 – Top Five priorities for Audit and Compliance Committee Chairs in December 2020, compared to October 2020.

Rank in Dec. 2020	Priority	Change in rank vs Oct 2020 pilot survey	Importance in Dec 2020 (10=high)	Increase in importance since pilot
1	Cybersecurity risk	—	9.4	0.3
2	Internal controls	+1	8.6	0.4
3	Managing physician relationships	+7	8.5	2.4
4	Planning for uncertainty	+2	8.2	0.9
5	Digital transformation	+3	8.1	1.4

Key takeaways

CFOs

- 1 **Fifteen of the sixteen priorities increased** in importance from October.
- 2 **The exception was political uncertainty**, following the election results. This fell from the #5 CFO priority in the October pulse survey to #12 in the December survey.
- 3 It is not surprising that **Cybersecurity risk has increased in importance**, given recent cyber-attacks.
- 4 The **significant increase in the importance of changing care delivery models** may suggest that health systems have started to move on from thinking about COVID-19 towards how care delivery changes can be implemented and sustained in the long-run.

AUDIT AND COMPLIANCE COMMITTEE CHAIRS

- 1 **Cybersecurity remains the top priority** for Audit and Compliance Committee Chairs.
- 2 **Managing physician relationships** has, as with CFOs (who now rank it #6), seen a significant increase in importance.
- 3 There has also been a **large rise in digital transformation's importance** since the October pulse survey, bringing the chairs more closely aligned with the CFOs.
- 4 **Three of the top five issues are consistent between CFOs and Audit and Compliance Committee Chairs** – Cybersecurity risk, planning for uncertainty and digital transformation.

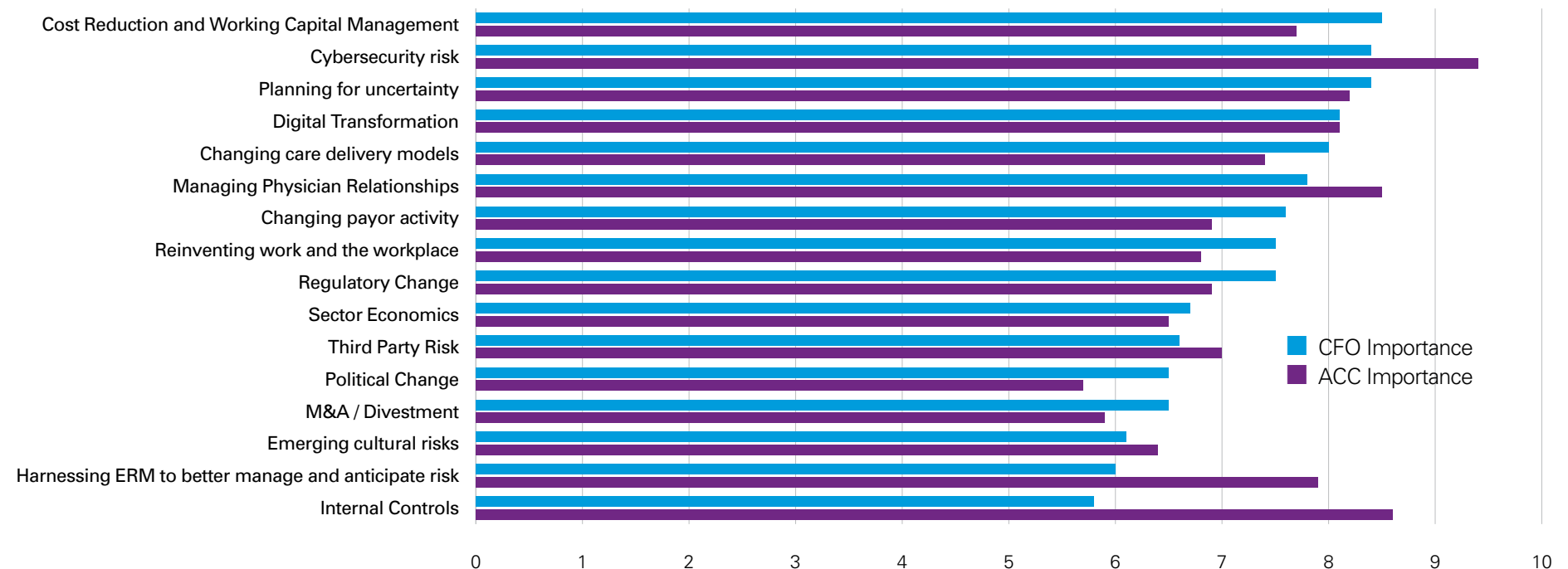
Observations of similarities and differences between CFOs and Audit and Compliance Committee Chairs¹

Figure 4 below shows the full results for the CFOs and Audit and Compliance Committee Chairs in terms of the importance of each priority.

It's interesting to note that that many of the top priorities for Audit and Compliance Committee Chairs (such as internal controls and harnessing ERM) were near the bottom of the list of CFO priorities. In the case of internal controls, as Figure 5 (Comparison of priority and preparedness for CFOs) suggests, this may be because they were deemed to be well managed by the CFOs.

It should also be noted that all the priorities were ranked over 5.5 on a scale of 1 to 10 of importance with 10 being the highest. These results are indicative of the significant number of items on the agendas for both CFOs and Audit and Compliance Committee Chairs as their organizations remain on the front lines of fighting COVID-19, while trying to maintain the momentum of the positive transformational changes brought about as a result of the pandemic.

Figure 4 – importance of priorities (CFOs vs Audit and Compliance Committee Chairs)



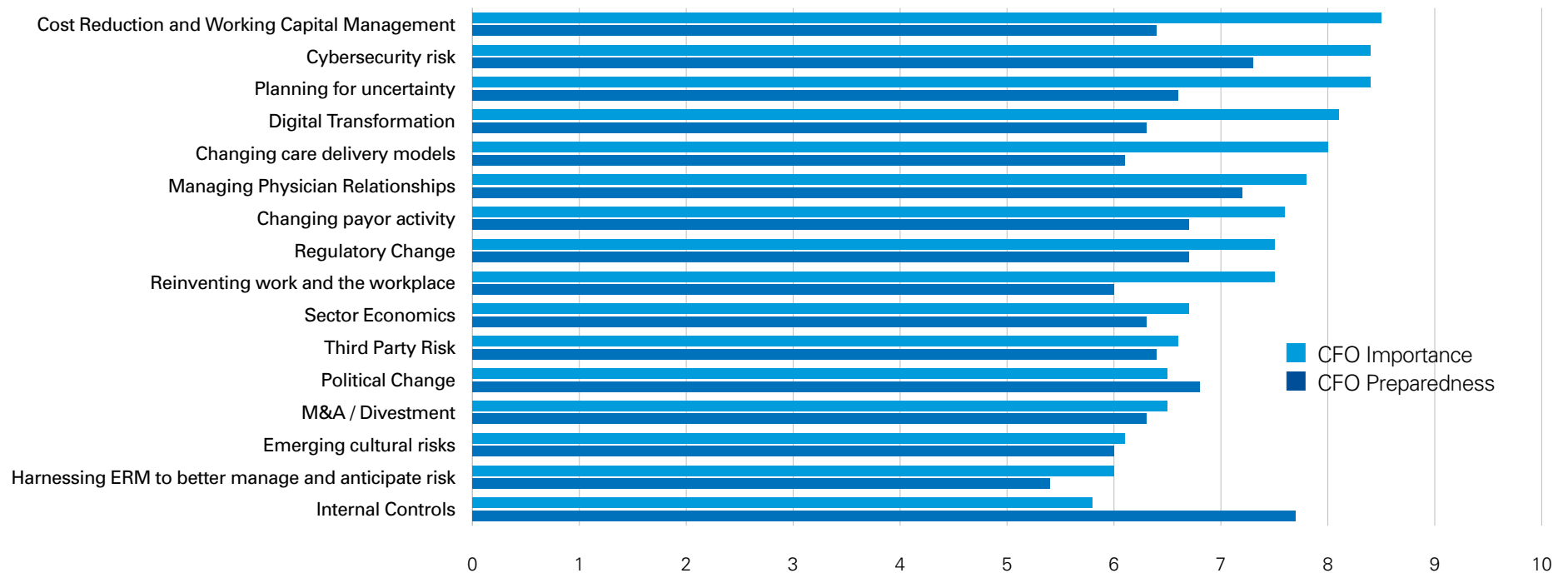
¹ Please note that all the data from here onwards covers the results from the December 2020 survey tranche only, not the October 2020 data.

Observations of 'gaps' between importance and preparedness

It is interesting to note the 'gaps' between importance and preparedness for our two groups of leaders. For the CFOs (See Figure 5), many of the largest gaps exist in the longer-term strategic areas (e.g. Digital Transformation, Changing Care

Delivery Models, and Reinventing work and the workplace), as well as some of the more acute short-term pressures such as cost reduction and working capital management.

Figure 5 – comparison of CFO rating of importance vs CFO rating of preparedness



Observations of 'gaps' between importance and preparedness (continued)

The Audit and Compliance Committee chairs see smaller gaps in most areas (see figure 6). However, like CFOs they consider there to be a gap between

the importance of managing cybersecurity risk, and current organizational preparedness.

Figure 6 – comparison of Audit and Compliance Committee Chair rating of importance vs Audit and Compliance Committee Chair rating of preparedness



Observations of changing 'gaps' between importance and preparedness over time

Since the October 2020 initial survey, while the importance of many priorities has grown for CFOs, preparedness has not, which has widened the gap on many priorities. Indeed, in some areas, CFOs feel preparedness has reduced, for example Cost Reduction and Working Capital Management and harnessing ERM to better manage and anticipate risk. This may be a reflection of the fact that the continued resurgence of COVID-19 in some geographies means that hospital systems will continue to be exposed to financial uncertainty longer term.

Audit and Compliance Committee Chairs, on the other hand, broadly feel that their organizations have either increased their absolute preparedness since October, or held steady. However, on some priorities where importance has materially increased since October, preparedness has not always been deemed to have increased proportionately. This has led to increasing gaps in areas such as Managing Physician Relationships and Digital Transformation .

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