Metrics to Measure Effective Compliance

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Senior Vice President
Chief Ethics and Compliance Officer
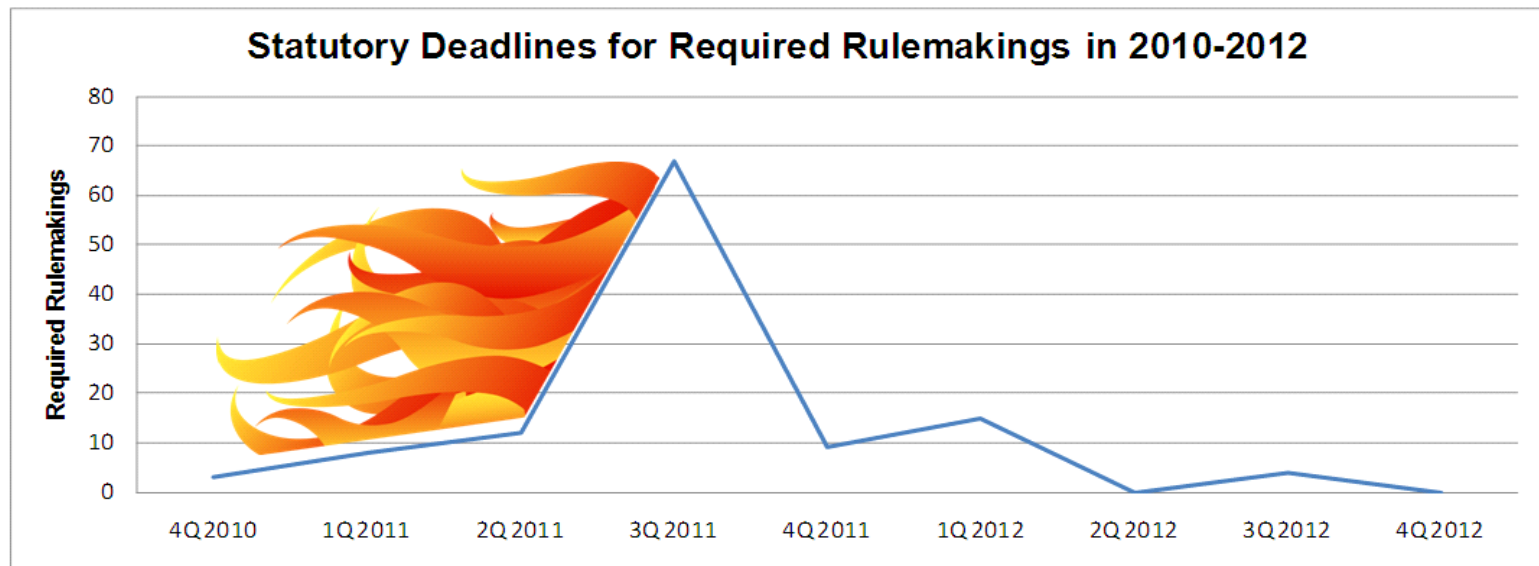

COMPLIANCE WEEK 2012

Top Industry Compliance & Ethics Priorities

Regulatory tracking, measuring program effectiveness, and strengthening ethical leadership were among the top items on the compliance agenda for Financial Services companies in 2011.

Priority	Percentage
Keep up with regulatory changes and risks	100.0%
Design and delivery of training and communication	93.8%
Drive department efficiency	93.8%
Develop metrics to measure program effectiveness	87.5%
Create effective compliance program board reports	87.5%
Strengthen ethical leadership among mgmt.	87.5%
Build compliance staff skills	75.0%
Conduct a formal program assessment	62.5%
Build uniform culture of integrity across global ops.	60.0%
Improve-third party management and oversight	56.3%

Enterprise Compliance and Ethics – Managing Regulatory Change

Required Rulemakings —The Red Zone

Statutory Deadlines for Required Rulemakings in 2010-2012

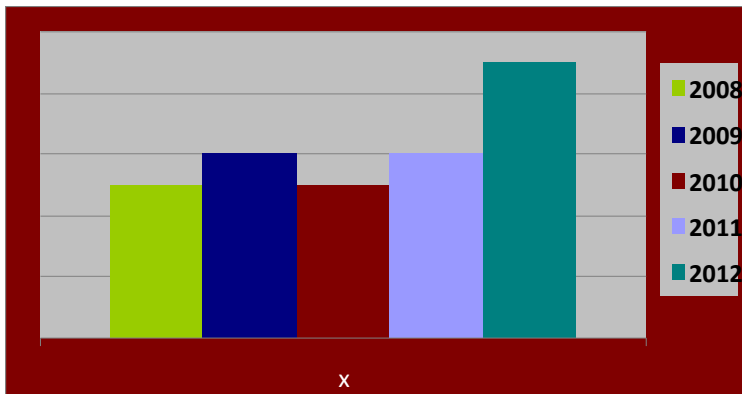NYSE Research

COMPLIANCE WEEK 2012

Enterprise Compliance and Ethics – Monitoring, Measuring and Reporting (For Illustrative Purposes Only)
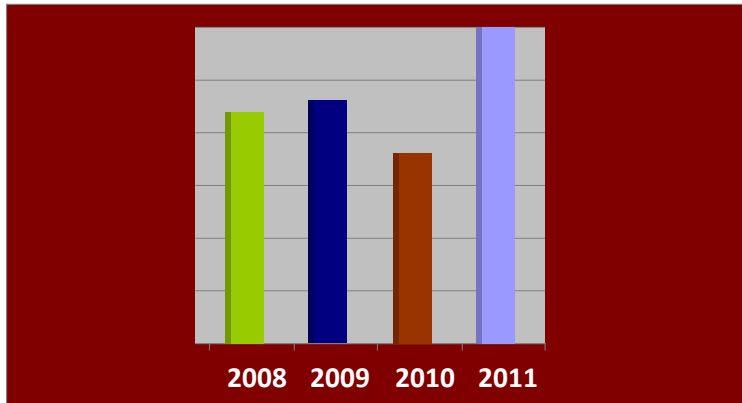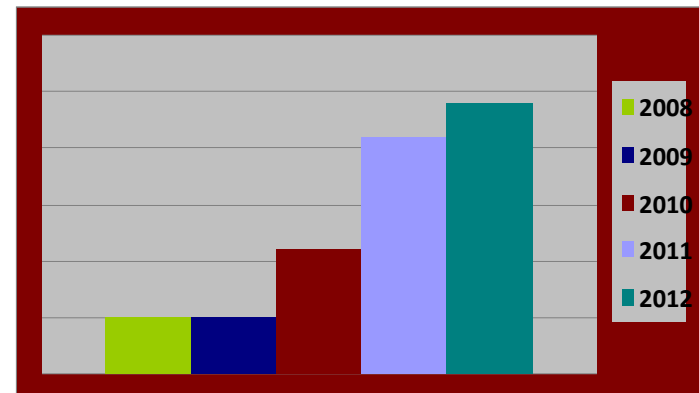

> Helpline cases are expected to increase due to new SEC Whistleblower rules and internal reporting awareness.
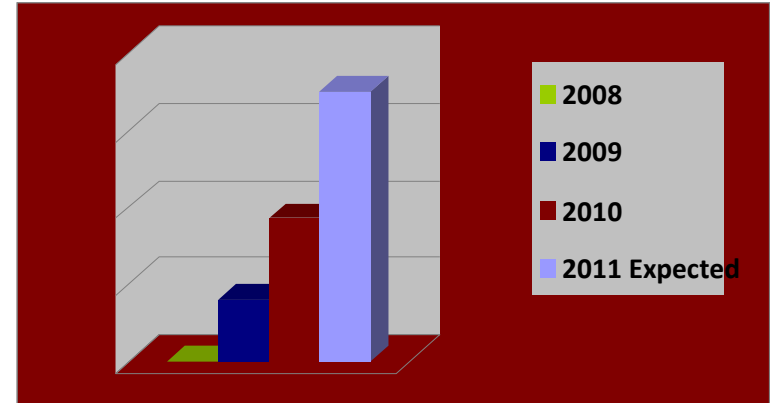
> Conflicts of Interest Disclosures are expected to double due to increased awareness of this BOD requirement.


> Projected increase in required training courses due to increased regulatory environment.

> Enterprise wide usage of LearnerWeb (LMS) by new business unit administration areas.

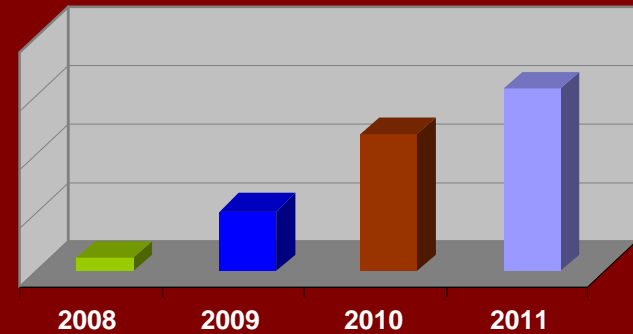# Enterprise Compliance and Ethics – Monitoring, Measuring and Reporting (For Illustrative Purposes Only)

Privacy Disclosures Reported

2008   2009   2010   2011

Suspicious Activity Reports - 2008-2010

2008   2009   2010   2011
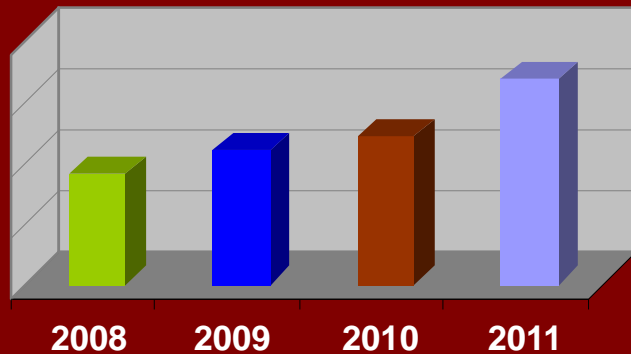
➢ Gradual upward trend in the number of privacy disclosures reported since 2008 accompanied by a significant increase in regulatory requirements, (HIPPA Hi-Tech, State Regulatory Authorities, etc.), for analyzing, tracking, responding to and reporting on privacy incidents.

➢ Compliance with these requirements mandates an increase in resources and available technology to support effective analysis and management of the process.

➢ Increase in SARs attributed to enhanced training within specific operational business units. Training has led to more referrals and a subsequent need for an added staff position to ensure that each referral is adequately and promptly investigated and to determine if a SAR should be filed.

➢ SARs filed have increased two fold since 2008 and are expected to have more than doubled the preceding year by the end of 2011.

Enterprise Compliance and Ethics:
Value Proposition

• Up to 80% of a Compliance Officer's day can be spent "hunting and gathering" for information / data

• Do we want our highly skilled Human Capital acting as Aggregators?

• Wouldn't we rather our people focused on analysis, providing guidance / advice/ direction and influencing outcomes?

Evolution
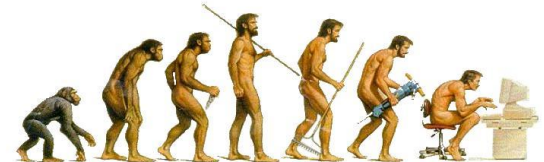
(or is it?)

Enterprise Compliance and Ethics:
Strategic, Sustainable and Scalable Value

Governance Risk and Compliance Business Value & Benefits:

- **Reduce the costs of compliance** through better automation and streamlined investigation (Prevention rather than detection)

- **Pro-active vs. re-active** (Many current processes are manual or based on antiquated technology – not exception based and provide no historical trend analysis

- **Develop metrics** to measure program effectiveness, providing impactful analysis to the business and appropriately influencing outcomes

- **Detect, investigate and accurately report** on potentially suspicious activity, both today and in the future, **to the satisfaction of the regulators**
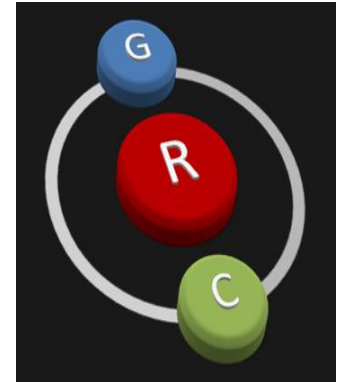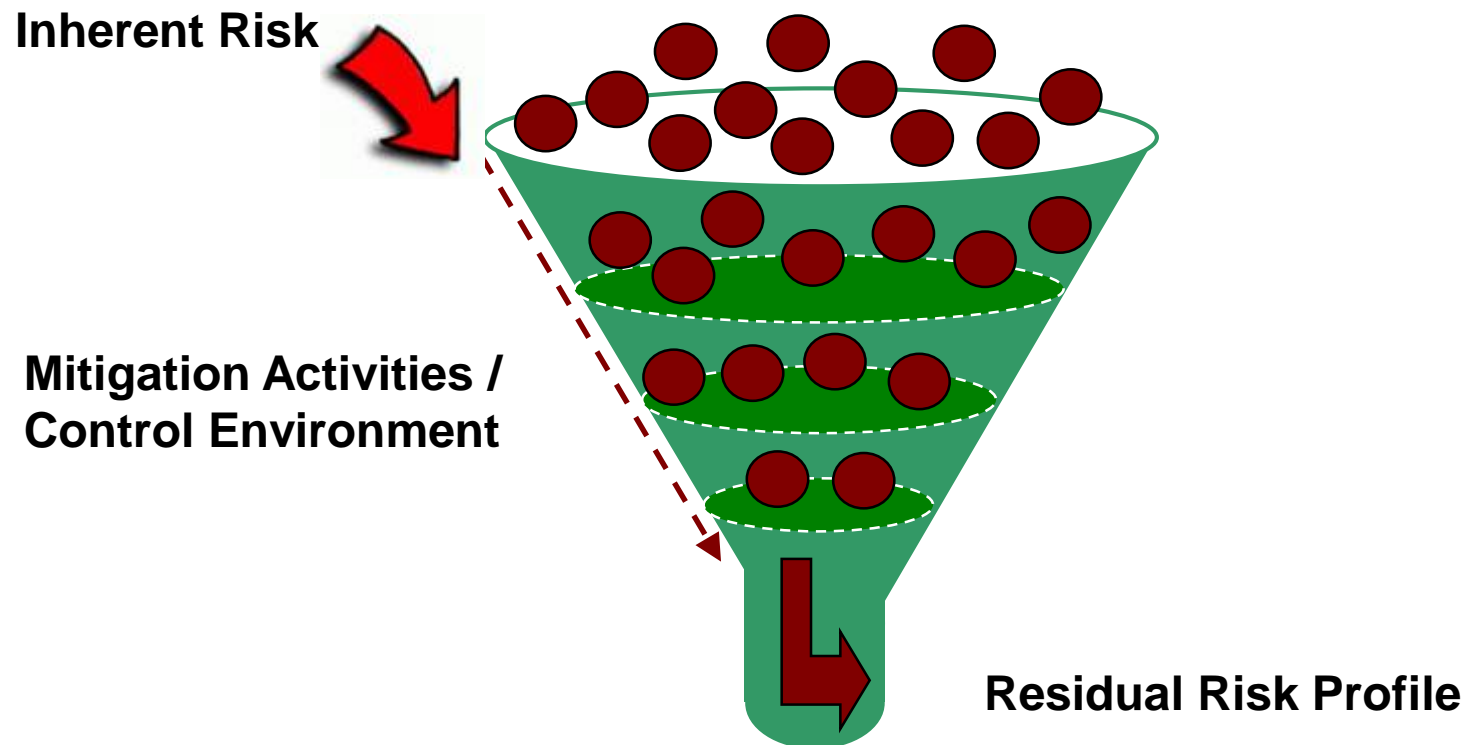
Enterprise Compliance and Ethics: Strategic, Sustainable and Scalable Value

Providing Impactful Enterprise Risk Management and Effective Governance:

- Meets a **key regulatory requirement** by providing the ability to evidence appropriate escalation of potential risk/issues throughout the organization

- **Trending and Pattern Detection** can facilitate **risk mitigation** and increase **greater efficiency** for the organization (reduction of triage efforts)

- **Provides a critical step** in protection of the organization:
    - o ***Replaces*** manual monitoring which will no longer be sustainable or scalable to support future regulatory requirements and future growth of the organization
    - o ***Supports*** the exponential increases in regulatory scrutiny and expectations that are coupled with increased transactional volumes and business initiatives
    - o ***Reduces*** the risk of regulatory fines

Risk Management "Funnel"

Inherent Risk

Mitigation Activities / Control Environment

Residual Risk Profile

LFG Enterprise Compliance Risk Management Lifecycle Model

Identify: Effective Controls **+** Applicable Rules & Regulations **+** Exam Trends **=** Risk Register

Analyze: Risk Register **+** Business Profile **=** Compliance Exposure

Respond: Compliance Exposure **+** Policies & Procedures **=** Compliance Gap

Evaluate: Compliance Gap **+** Best Practices **=** Mitigating Controls

Treat: Mitigating Controls **+** Awareness **=** Reduced Risk

Monitor: Reduced Risk **+** Periodic Testing **=** Effective Controls

Cycle: Identify → Analyze → Respond → Evaluate → Treat → Monitor

LFG Compliance Risk Centric Approach to Enterprise Compliance & Ethics
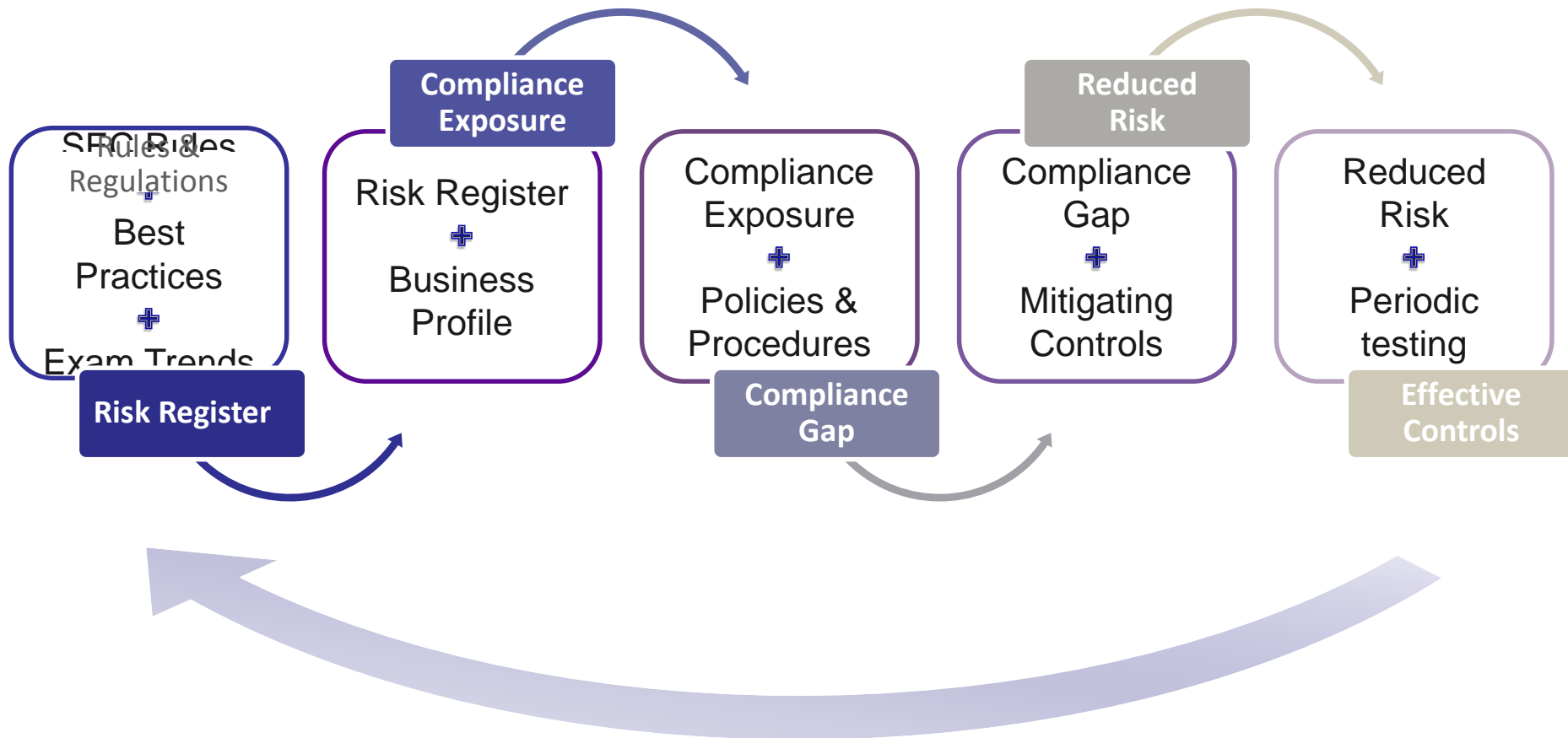
Compliance Exposure

Reduced Risk

SRO Rules
Rules & Regulations

Best Practices
+
Exam Trends

Risk Register

Risk Register
+
Business Profile

Compliance Exposure
+
Policies & Procedures

Compliance Gap

Compliance Gap
+
Mitigating Controls

Reduced Risk
+
Periodic testing

Effective Controls

Questions?

Turning Data Into Knowledge
And Knowledge Into Action

Why Are Metrics Important?

- Provide great insight into the issues

- Highlight problems, successes, risks

- Spotlight on areas for improvement

- Proactive vs. reactive

- Make the "business case" for a strong program

Metrics Are a Window Into the Company

Turning Data Into Knowledge And Knowledge Into Action

What To Measure?

- Determine what works for your business

- No 'one size fits all' approach

- Different types of measurements

  ➢ **Do we have the right systems in place?**

  ➢ **Are we improving our ethics/compliance performance?**

  ➢ **Are our efforts leading to better outcomes?**

Right Choice of Metrics = Meaningful Data

Turning Data Into Knowledge
And Knowledge Into Action

Metrics To Consider

- Number and Source of Contacts...

  ➢ **What are the key issues/employee concerns?**

  ➢ **Where are they coming from?**

- Substantiated vs. unsubstantiated...

  ➢ **Highlights the most important issues**

- Ratio of anonymous vs. identified...

  ➢ **Lower anonymous = confidence in the system**

Turning Data Into Knowledge
And Knowledge Into Action

Metrics To Consider

- Ratio of cases vs. inquiries

  ➢ **Higher inquiries = employees asking before they act**

- Corrective action and discipline

  ➢ **Shows your program has teeth**

  ➢ **Ensures consistency**

- Avg. # of days to close…

  ➢ **Measure of employee responsiveness**

Robust Set of Data

Turning Data Into Knowledge
And Knowledge Into Action

Analyze the Data

- Look for trends/patterns

- Compare time periods

  ➢ **Month over month**

  ➢ **Year over year**

- Recognize drivers and outliers

Knowledge of Ethics/Compliance Program

Turning Data Into Knowledge
And Knowledge Into Action

Sharing the Knowledge

- Determine the audience and frequency
  - ➢ **Board of directors/executive leadership**
  - ➢ **Steering committees**
  - ➢ **Business reviews**
  - ➢ **Employee communications**
- Engage leadership to drive action
  - ➢ **Make leaders part of the solution**
  - ➢ **Move and adapt quickly**

What Gets Measured Gets Done

History and Scope of Centene

- Established in 1984 in Milwaukee, Wisc.
- Headquartered in St. Louis, Mo.
- Fortune 500 company
- Employees approaching 6,000 individuals
- Serves more than 2.1 million Medicaid members across the country
- Currently operates health plans in 16 states (including Mo. and Wash.)
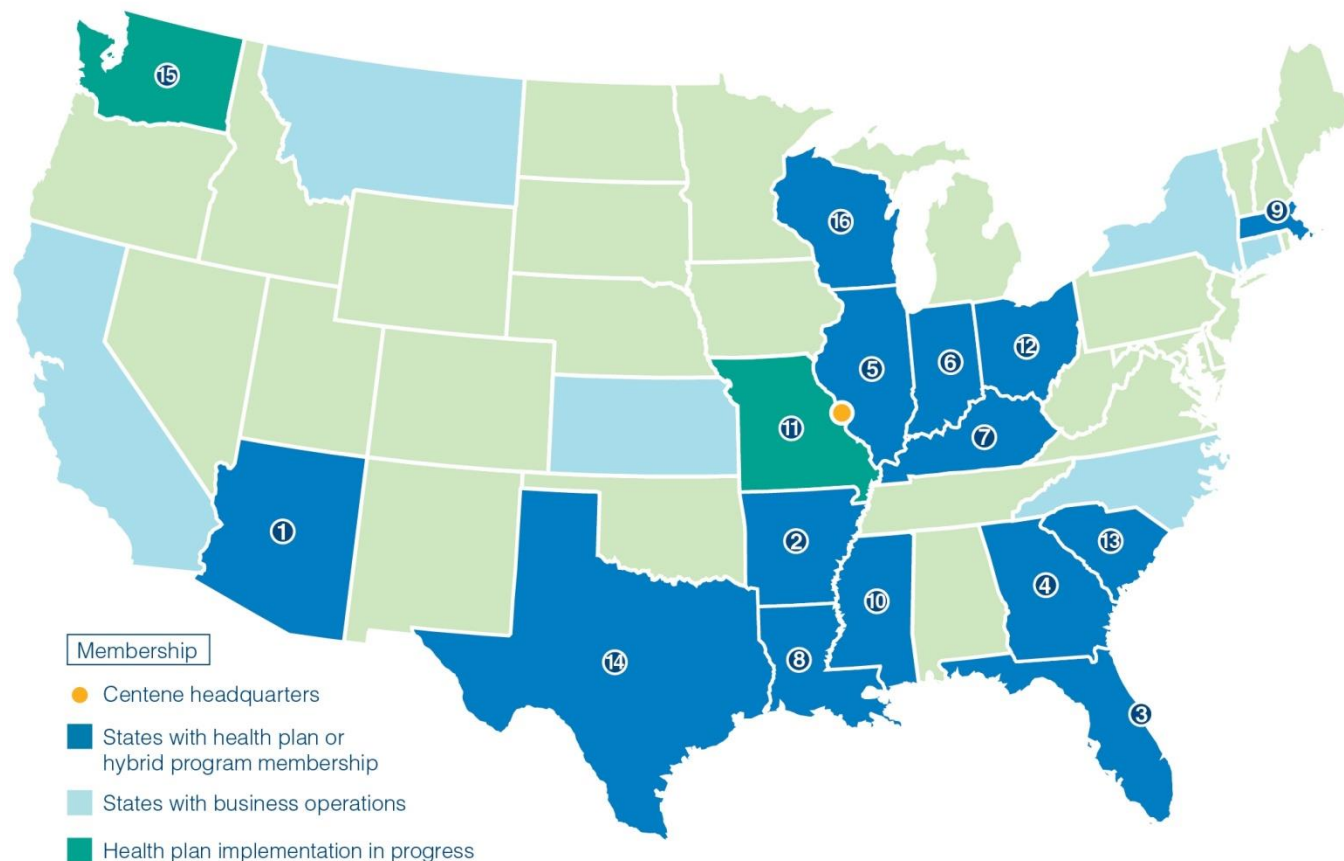- Contracts with more than 130,000 physicians and 1,200 hospitals

"**CENTENE** will provide better health outcomes at lower costs."

Financial Summary

- NYSE: CNC
- Revenue: More than $7 billion expected for 2012
- Balance Sheet: ~$1.2 billion in cash and investments

Using Metrics to Measure Compliance Effectiveness

Membership

- 🟠 Centene headquarters
- 🟦 States with health plan or hybrid program membership
- 🟦 States with business operations
- 🟩 Health plan implementation in progress

Note: Health plan operations in LA started February 1, 2012 while operations in MO and WA are expected to start July 1, 2012.

#	Plan	Value
1	BRIDGEWAY Health Solutions	23,100
2	NovaSys Health	TPA
3	SUNSHINE STATE Health Plan	199,500
4	Peach State Health Plan	306,000
5	IlliniCare Health Plan	17,400
6	mhs Managed Health Services	206,300
7	Kentucky Spirit Health Plan	145,700
8	LOUISIANA HEALTHCARE CONNECTIONS	51,300
9	CELTICARE Health Plan of Massachusetts	36,000
10	Magnolia Health Plan	29,500
11	HOME STATE Health Plan	N/A
12	Buckeye Community Health Plan	161,000
13	ABSOLUTE TOTAL CARE	86,700
14	SUPERIOR HealthPlan	811,000
15	coordinated care	N/A
16	MHS Managed Health Services	76,000

Using Metrics to Measure Compliance Effectiveness

Focus on integration of physical health and ancillary services

Cultural Survey

- Voluntary survey sent to all employees
- Anonymous, hosted by a 3rd party
- 60 questions that focus on the effectiveness of the compliance program
- Employee perception of the culture
- Business unit analysis
- Benchmark group

Cultural Survey Measures

- Percent of employees who observed misconduct

- Percent of employees who reported the misconduct

- Who the employee reported the misconduct

- Reasons misconduct was <u>not</u> reported

- Types of misconduct observed

- Manager preparedness for receiving concerns

- Integrity risk assessment

Cultural Integrity Composite Score

- Tone at the top

- Trust in manager

- Trust in co-workers

- Comfort raising concerns

- Communication

- Organization action

- Understanding of expectations

Actions Taken

- Manager training (tone in the middle)
    - Handbook/issue escalation process
- Speaking Up training
- Subsidiary focus groups
    - Audience response system
    - Compliance/HR-OD partnership
- Corrective action plans
    - Communication plan
    - Employee development plans