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## IT Due Diligence in an Era of Mergers and Acquisitions

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**University of Vermont**  
HEALTH NETWORK

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# Speaker Introduction

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# Conflict of Interest

Charlie Jones; MHA, FACHE

Has no real or apparent conflicts of interest to report.

# Overview of the Presentation

- Learning Objectives
- Current Environment
  - Mergers & Acquisitions
  - IT Challenges and Concerns
- Due Diligence as Risk Management / Risk Reduction Activity
- Process Steps & Timeline
- Key Considerations
- Risk Mitigation Steps
- Summary / Q & A

# Learning Objectives

- Recognize an appreciation for IT risk identification when entering into a letter of intent to merge or be acquired
- Discuss the core elements of a thoughtful IT due diligence plan
- Identify steps to follow to assemble a team and execute an IT due diligence plan

# The University of Vermont Health Network

- Formed in 2011
- Entities in the Health Network
  - Academic Medical Center
  - 5 Community Hospitals
  - Durable Medical Equipment Supplier
  - Visiting Nurse Association of Chittenden and Grand Isle Counties, which joined in Jan. 2018
- Serving the residents of Vermont and northern New York.
- Over 4,000 health care providers working together to offer high-quality care more cost-efficiently and as close to home as possible.



*The heart and science of medicine.*

A screenshot of the University of Vermont Health Network website. The main heading reads "Six hospitals working together to improve people's lives." Below this is a dropdown menu labeled "SELECT A UVM HEALTH NETWORK HOSPITAL". The list includes: University of Vermont Medical Center (BURLINGTON, VT), Central Vermont Medical Center (CVMC) (BERLIN, VT), Porter Medical Center (MIDDLEBURY, VT), Alice Hyde Medical Center (MALDEN, NY), Champlain Valley Physicians Hospital (CVPFH) (PLATTSBURGH, NY), and Elizabethtown Community Hospital (ELIZABETHTOWN, NY). To the right of the list is a scenic photograph of a Vermont landscape with mountains, a lake, and autumn foliage.

# Our Experience with IT Due Diligence

- Started Structured Program
  - Refined over time
  - C-Suite / CIO Advocacy & Engagement
- Organizations surveyed
  - 2 Community Hospitals
  - 4 Medical Practices
  - 1 Home Health Agency
  - 1 Durable Medical Equipment Company





## Show of Hands

Whom here has been impacted by some form of a change in organizational ownership, such as a merger, collaboration, affiliation, or partnership?





# An Example



<https://www.fiercehealthcare.com/finance/dignity-health-chi-to-merge-and-form-new-catholic-health-system>

# Mergers & Acquisitions Trends



## Recent M&A Activity in New England

- Partners HealthCare acquires Wentworth Douglass Hospital (2017)  
(<https://www.bostonglobe.com/business/2017/01/03/partners-acquires-new-hampshire-hospital/1TbSXIY5wmfjINRKKKstWO/story.html>)
- Partners HealthCare and Care New England Health Span add Lifespan to merger talks (2018)  
(<http://www.modernhealthcare.com/article/20180228/NEWS/180229907>)
- Beth Israel Deaconess Medical Center and Lahey Health Merger Delayed (2018) (<https://revcycleintelligence.com/news/6-major-hospital-merger-deals-making-headlines-in-2018>)

# Current Environment

## US Healthcare Provider Marketplace

- Consolidation in the form of mergers, affiliations, partnerships and collaborations remains a year over year trend.
- Shifts in ecosystem of healthcare organizations
  - Larger integrated systems forming
  - Evolving models for healthcare delivery
  - Ambulatory expansion (e.g., CVS “minute clinics”)
  - CVS and Aetna deal combining retail and insurance

<https://www.fiercehealthcare.com/finance/hospital-mergers-and-acquisitions-kaufman-hall>

# What are some of the Drivers for Health Care Consolidation?

- Strategic Goals
  - Population Health
  - Market Reach
  - Technology Acquisition
  - Vertical and Horizontal Integration
- Finance Goals
  - Controlling costs of doing business (supplies, tech, labor)
  - Evolving value based financing



# Due Diligence: Risk Management / Risk Reduction

According to Merriam Webster Dictionary, the **definition of due diligence is:**

1. law : the care that a reasonable person exercises to avoid harm to other persons or their property; failed to exercise *due diligence* in trying to prevent the accident
  2. business : research and analysis of a company or organization done in preparation for a business transaction (such as a corporate merger or purchase of securities)
- <https://www.merriam-webster.com/dictionary/due%20diligence>

## Due Diligence Begins

- When both parties seek to pursue some form of business integration (e.g., purchase, affiliation, merger, etc.)
- Following signed:
  - Letter of Intent (LOI)
  - Confidentiality Agreement
- Due Diligence may take many forms and often involves Legal, Human Resources, Supply Chain, Finance, as well as IT





# Why Perform IT Due Diligence?

- Information Technology (IT) plays an important role in business operations, managing information and financial reporting.
- IT plays an increasingly key role in business success.
- Cybersecurity threats. Need to know up front potential exposures, risks and vulnerabilities.

## Forming a Relationship

- Like any forming relationship, it's important to get to know your partner before entering into a more serious relationship.
  - Best to uncover potential issues early.
  - Informed partners make better decisions.
  - Steps can be taken to reduce risk.
  - Permits time to reconsider if risks are too high to proceed.

# IT Challenges and Concerns

- Integrating organizations raise particular IT challenges and pose various forms of risk.
- Here are some examples:
  - HIPAA violation: legal, financial and reputation risk
  - Out of date systems: business risk, financial risk
  - Poor end user support: business risk, financial risk
  - Vulnerable infrastructure: technology risk, financial risk
  - Misaligned technology: technology risk, business risk, financial risk

# What do Senior Executives want to know?

- How are they doing?
  - *Current State of IT Capabilities (some examples)*
    - Organization, personnel, vendors
    - Inventory of applications and infrastructure
    - Uptime of applications
    - Spending levels
- What might be our costs to close the deal?
- *Anything else?*

# What else do Senior Executives want to know?

- What might be a gotcha?
  - *Risk Assessment*
    - Categorize, analyze and develop mitigation strategies
- What does the near future look like post partnership?
  - *Scenario Planning*
    - Future state, cost savings, consolidation, talent management, etc.

# Overview & Timeline

(typically completed < 90 days from LOI)

1. A structured time bound process carried out as formal project.
2. Led by a project manager.
3. Formal project sponsorship by the CIO.
4. Is a visible and treated as a priority initiative.
5. Awareness within the IT leadership team.
6. Involves third parties (e.g., cyber security firm).
7. Is conducted as a confidential and sensitive initiative.

## Process Steps

1. Assemble a team
2. Send a request and IT focused questionnaire
3. Compiling an onsite discovery process outline
4. Conducting a review of requested materials
5. Scheduling and coordinating the onsite visit
6. Preparing the report and mitigation strategies
7. Delivering the report and responding to questions
8. Communicate and follow-through on actions if the deal proceeds to close.



## Assemble the Team

- IT team should have cross functional representation from: clinical applications, networking, infrastructure and IT security.
- IT Team will work from existing formal IT technical standards.
- IT Team will conduct work professionally and respect Non-Disclosure Agreements and confidentiality agreements in place.
- IT team is led by Network Chief Medical Information Officer or CTO with the operational support of a Network IT Project Manager.

# Preparation

- Set project deliverables and schedule
- Outline expectation of project deliverables (reports, presentations, etc.)
- Determine due date of deliverables and work backwards to determine schedule
  - Hold planning meetings with IT Due Diligence Team
    - Pre-site visit meetings to determine roles and high level schedule
    - Post site visit meetings to review findings and discuss deliverable for report.
  - Plan for requests for additional information
- Schedule site visit with affiliate, setting aside two dates in case of need to cancel

## The Site Visit(s)

- Onsite Visit, may require repeat of follow-ups visit(s)
- Tour, meet, ask, observe, record
- Each team member takes notes from onsite visit and provides information to Project Manager in requested format to help with report.
  - SWOT analysis for each concentration/area of focus
  - General findings by area of focus
  - Recommendations by area of focus with implementation timeline and estimated costs

## Areas of Focus - an Example

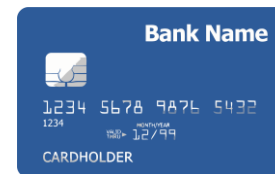
- As a part of assessing compliance with HIPAA requirements, a review of system access and user provisioning is conducted.
  - Unauthorized access to data or applications is a significant organizational risk.
  - What to look for:
    - Presence of and consistent controls over:
      - Passwords
      - Timeouts
      - Lockouts
      - Physical access restrictions

## Areas of Focus (Other Examples)

- Information Security ( some examples)
  - Network Security
    - Firewalls, access restrictions, patching, vulnerability scanning and audits
  - Data Loss Protection
    - Endpoint protections
    - Interrogation of data in motion and data at rest
  - Physical access controls
  - Use of Multi-Factor Authentication

## Areas of Focus (More Examples)

- Disaster Recovery and Business Continuity
- Application Inventory and Vendor / Contracts List
- Personnel, Organizational Chart
- System Implementations & Project Management
- Use of Devices
  - BYOD & Mobile Device Management (MDM)
  - Biomedical
- Payment Card Industry Data Security Standard
  - All entities that store, process or transmit credit cardholder data



# Summary of Observations and Findings

- Translate from IT to Business Speak
- SWOT Format seems to work well
  - Strengths – what are they doing well?
  - Weaknesses – what are they not doing well?
  - Opportunities – what value could be derived?
  - Threats – what is looming that needs to be addressed?
- Keep it High-Level and to the point
- Scoring/ Metrics





# Excerpt of Summary Report of Findings

## Outline of Major Sections

- Summary of Observations and Findings
- Identified & Prioritized Risks
- Mitigation Steps and Future Scenarios
- Associated High Level Costs

SWOT Analysis Summary of Findings		
<i>Strengths</i>	<i>Opportunities</i>	
<i>Weaknesses</i>	<i>Threats</i>	
<b>General Observations</b> <i>Based on areas of concentration for the affiliation, examples used in past IT due diligence included IS Security, Infrastructure and Networking, Clinical applications.</i>		
<b>Recommendations</b> <i>Based on areas of concentration for the affiliation, organized by phase, including duration of work, and estimated costs</i>		
<b>Phase X – duration</b>	<b>Estimated Duration</b>	<b>Estimated Cost</b>
Phase 1 – Months 1-5 post affiliation		
Phase 2 – Months 6-12 post affiliation		
Phase 3 – Months 12 and beyond post affiliation		
Estimated total costs (Operational vs. Capital)		

## Identified & Prioritized Risks

- Develop consensus on risks that were identified.
- Prioritize and time-bound them.
  - Helps with timing of when they should be addressed
  - Helps with budgeting and resource planning
- Provide context for why it's important so that non-IT personnel understand and can advocate for them.

## Recommended Mitigation Steps and any Associated High Level Costs

- Develop mitigation steps for each risk identified.
- Summarize the steps for the report.
  - For example,
    - Finding: the target organization has not conducted an information security audit in the past 2 years.
    - Risk: unaware of vulnerabilities, possible HIPAA concern.
    - Mitigation: conduct security audit in advance of agreement close.

## Summary Report Steps

- Draft prepared
- Circulated to CIO as Discussion Draft
- Modified as needed
- Presented to Legal Counsel and CEO
- Shared with partner prior to close of deal
- Included in final agreements

## Present the Report

- Typically CIO presents the final report to General Counsel and Network CEO.
- Report is included in pre-close discussion with the organization being considered.
- Discussion and acceptance of findings occurs.
- Report added to agreement as part of terms and conditions.



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# Questions

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- Please complete online session evaluation.
- Thank you for your attention and participation!

