Call to Order

- Public Comments

<table>
<thead>
<tr>
<th>Item</th>
<th>Presenter</th>
<th>Page</th>
<th>Mins</th>
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</thead>
<tbody>
<tr>
<td>1. * Meeting Minutes – November 18, 2010</td>
<td>N. Bassett</td>
<td>2-5</td>
<td>15</td>
</tr>
<tr>
<td>2. Compliance and Ethics Committee Report (2 months)</td>
<td>B. Hemker</td>
<td>6</td>
<td>15</td>
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<td>4. Mission, Vision and Values Plaques</td>
<td>M. Knutson</td>
<td>8-10</td>
<td>5</td>
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<tr>
<td>5. Annual Financial Audit Policy <em>(referred from Governance Committee)</em></td>
<td>M. Knutson</td>
<td>10-18</td>
<td>15</td>
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<tr>
<td>6. Compliance Program Policy <em>(referred from Governance Committee)</em></td>
<td>M. Knutson</td>
<td>19-24</td>
<td>5</td>
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<td>7. Certifications of CEO &amp; CFO</td>
<td>B. Hemker</td>
<td>25-26</td>
<td>5</td>
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<td>8. Committee Self-Assessment</td>
<td>N. Bassett</td>
<td>27-29</td>
<td>30</td>
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<tr>
<td>9. Internal Audit Update</td>
<td>T. Boyle</td>
<td>N/A</td>
<td>5</td>
</tr>
<tr>
<td>10. * Date/Time/Location of Next Meeting (Jan. 20th)</td>
<td>N. Bassett</td>
<td>N/A</td>
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**Adjournment**

Nancy Bassett, R.N, Chairman
Jerry Kaufman, M.A.P.T.
Linda Greer, R.N.
Bruce Krider, Board Chair, alt.
Marty Knutson, Corporate Compliance Officer

Michael Covert, CEO
Janine Sarti, General Counsel
Lachlan Macleay, M.D.
Bob Hemker, CFO
Tom Boyle, District Audit Officer
Pernell Jones, Admin Fellow

*NOTE: Asterisks indicate anticipated action; action is not limited to those designated items.*

“In observance of the ADA, Americans with Disabilities Act, please notify us at (858) 675-5230, forty-eight hours prior to meeting so that we may provide reasonable accommodations.”
# Palomar Pomerado Health
## AUDIT & COMPLIANCE
### BOARD COMMITTEE MEETING
- **Location:** 456 E. Grand Ave.
- **Venue:** 1st Floor Conference Room
- **Date:** November 18, 2010

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<tr>
<th>AGENDA ITEM/ PRESENTER</th>
<th>DISCUSSION</th>
<th>CONCLUSIONS/ACTION</th>
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<tr>
<td>CALL TO ORDER</td>
<td>5:18 P.M. by Director Bassett. Present: Directors Krider and Greer</td>
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<td></td>
<td>Also attending: Tom Boyle, Marty Knutson, Janine Sarti, Lucy Maxwell, Lachlan Macleay, MD, Mark Kawauchi (Deloitte), and Cecile Galvez (Deloitte).</td>
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<tr>
<td>NOTICE OF MEETING</td>
<td>Notice of Meeting was posted consistent with legal requirements.</td>
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<tr>
<td>PUBLIC COMMENTS</td>
<td>There were no members of the public present.</td>
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<td>APPROVAL OF MINUTES</td>
<td><strong>MOTION:</strong> by Krider, 2nd by Greer and carried to approve the minutes of October 21, 2010 as submitted. All in favor. None opposed.</td>
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<td>- October 21, 2010</td>
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<td>- Audit Activity Report</td>
<td>Mr. Boyle updated the committee with a status report of the Internal Audit Activities for November 2010. The status report was included in the packet. The committee discussed operational controls and audit of claims in regards to the PMC construction audit. The construction auditor works with vendors and the Facilities Department to validate billings and payments.</td>
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<td>Mr. Boyle also briefed the committee on the status of the pharmacy review, IS security review, and the Arch Partners asset inventory. The committee asked that Wendy Cohen from Facilities attend the January meeting to get her views on internal controls.</td>
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<td>AGENDA ITEM/PRESENTER</td>
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<td><strong>Compliance Hotline Activity Report</strong></td>
<td>Ms. Knutson presented the quarterly compliance hotline activity report for the months of July – September 2010. The full reports were included in the packet for the committee’s review. The report included allegation types on actual calls and web submissions received and a quarterly comparison of page views on the Compliance Intra and Internet sites. The total amount of allegations received this quarter was eleven.</td>
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<td><strong>Internal Satisfaction Survey Results</strong></td>
<td>The committee reviewed the results of the bi-annual internal survey satisfaction results for the Compliance Department and the Internal Audit Department. The survey is sent to all departments at PPH. The average ratings, comments, and overall score comparison were included in the packet. Mr. Boyle stated that the Audit Department will continue to distribute individual surveys following each audit project, in addition to the quarterly Q6 survey. The Board Members commended Mr. Boyle and Ms. Knutson for their survey results.</td>
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<tr>
<td><strong>Quality Self Assessment</strong></td>
<td>Mr. Kawauchi and Ms. Galvez, of Deloitte discussed the strategic quality assessment review of the Internal Audit Department. Mr. Kawauchi spoke about optimizing the value of Internal Audit, the value of a strategic quality assessment and Deloitte’s strategic quality assessment approach.</td>
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<td>The Institute of Internal Auditors standards recommend companies have an “independent” quality assessment every five years.</td>
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<td>The strategic assessment review focuses on how the internal audit function can add value to the organization and operate strategically. The process is collaborative and works through interviews with a broad cross section of management.</td>
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<td>Ms. Galvez explained that the key focus areas of a strategic assessment review are organization/people, process/methodologies, stakeholder perceptions and technology/performance.</td>
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<td>At the end of the Internal Audit assessment, Deloitte would give an opinion to whether the activity, generally conforms, partially conforms or does not conform.</td>
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<td>The estimated timeframe for the completion of a quality assessment is 3-4 weeks and approximately 150-200 hours.</td>
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<td>• Executive Reimbursement Audit</td>
<td>Mr. Boyle stated that the main focus of the executive reimbursement audit is to ensure executive management is in compliance with the organization’s business expense reimbursement policies. All business expenses and travel reimbursement payments of 14 members of the EMT were included in the review. The conclusion of the audit confirmed all claims made and reimbursements paid were in compliance with applicable PPH procedures.</td>
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<td>• Date/Time &amp; Location of next meeting</td>
<td>The next meeting of the Internal Audit and Compliance Committee is tentatively scheduled to be held on Thursday, December 16, 2010 at 5:15 p.m. in the 456 E. Grand Conference Room.</td>
<td>Director Bassett will not be able to attend the December meeting, but will meet with Ms. Knutson and Mr. Boyle to decide if the agenda warrants a meeting.</td>
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<td>ADJOURNMENT</td>
<td>The meeting was adjourned at 7:03 P.M.</td>
<td>Director Bassett moved to adjourn.</td>
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<td>SIGNATURES</td>
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<td>• Committee Chairperson</td>
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<td>[Nancy Bassett, R.N., M.B.A.]</td>
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<td>• Secretary to Committee</td>
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<td>[Lanissa Weddington]</td>
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INFORMATION ITEMS:

- **Code of Conduct:** The members of the PMC medical staff reviewed a draft of the Code of Conduct at Department meetings and the MEC agreed to adopt it with certain changes.

- **Conflict of Interest Procedure Roll-Out Activities:** Vendors of PPH were notified by email of the “zero gifts” standard. Leadership received a copy of the procedure and the “fruitcake” examples.

- **Compliance and Ethics Risks:** The committee discussed and identified potential compliance risks at PPH. Each member of the committee scored specific risks based on a low or high occurrence and impact to PPH. Some of the risks identified were data security, HIPAA, gifting, reimbursement and documentation. The results will be used to formulate a Compliance and Ethics work plan.

- **Physician Contracting:** Management completed physician contracting training. An audit of physician contracts is being conducted to assess compliance with PPH procedure and regulatory requirements.

- **Regulatory Update:** The committee reviewed Americans with Disabilities Act (ADA) information regarding medical care for patients with mobility disabilities.
TO: Board of Directors Audit & Compliance Committee

MEETING DATE: December 16, 2010

FROM: Marty Knutson, Corporate Compliance Officer

**Background:** Palomar and Pomerado Medical Staff's have considered the PPH Code of Conduct and have requested certain changes. The committee will review those changes and make an appropriate recommendation to the Board of Directors.

**Budget Impact:** N/A

**Staff Recommendation:** Approve changes and recommend adoption to the Board of Directors.

**COMMITTEE RECOMMENDATION:**

- **Motion:**
- **Individual Action:**
- **Information:**
- **Required Time:**
MISSION

The mission of Palomar Pomerado Health is to heal, comfort and promote health in the communities we serve.

VISION

Palomar Pomerado Health will be the health system of choice for patients, physicians and employees, recognized nationally for the highest quality of clinical care and access to comprehensive services.
VALUES

Patient’s Well-Being

We passionately give and support heartfelt care that encourages patient comfort and safety.

Professionalism

Each of us takes pride in teamwork, self-discipline, our skills and trustworthiness.

Highest Quality

We are each accountable for providing the safest, most effective and innovative care.

Speak Up | 800.850.2551

Palomar Pomerado Health
SPECIALIZING IN YOU
Code of Conduct
Commitment Pin

OUR WAY
I. PURPOSE:
To establish policy, as a part of the Board's fiduciary obligation as expressed in the Local Health Care Law and the Board Bylaws, an independent, financial audit shall be conducted on an annual basis by a qualified auditing firm.

II. DEFINITIONS:

III. TEXT / STANDARDS OF PRACTICE:
A. The Audit Committee shall recommend to the board a qualified firm to conduct an independent, financial audit annually.
B. The Finance Committee shall review the audit process and audit reports and make appropriate recommendations to the board.
C. This policy will be reviewed and updated as required or at least every three years.

IV. ADDENDUM:
Type your addenda here.

IV. DOCUMENT / PUBLICATION HISTORY:
Original Document Date: 4/18/95
Reviewed: 11/95; 1/99; 6/05; 11/06
Revision Number: 1 Dated: 6/05
Document Owner: Michael Covert
Authorized Promulgating Officers: Marcelo R. Rivera, Chairman

V. CROSS REFERENCE DOCUMENTS:
Prior to 2005 this policy was Board Policy 10-502

V. DOCUMENT / PUBLICATION HISTORY: (template)

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<th>Effective Date</th>
<th>Document Owner at Publication</th>
<th>Description</th>
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<tr>
<td>(this version) 2</td>
<td>11/14/2007</td>
<td>James Neal, Director of Corporate Integrity</td>
<td>Board Review</td>
</tr>
<tr>
<td>(Changes) 1</td>
<td>06/01/2005</td>
<td>James Neal, Director of Corporate Integrity</td>
<td>Original Document Date: 4/18/95</td>
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<td>Reviewed: 11/95; 1/99; 6/05</td>
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<td>Authorized Promulgating Officers: Marcelo R. Rivera, Chairman</td>
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Authorized Promulgating Officers: (10/15/2007) James Neal, Director of Corporate Integrity
VI. CROSS-REFERENCE DOCUMENTS:

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<tr>
<td>Source Documents</td>
<td>Prior to 2005 this policy was Board Policy 10-502</td>
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https://www.lucidoc.com/cgi/doc-gw.pl?ref=pphealth:21808
PALOMAR POMERADO HEALTH
INTERNAL AUDIT AND COMPLIANCE COMMITTEE CHARTER

I. Purpose.

The Internal Audit and Compliance Committee ("Committee") will assist the Board in the following items.

Provide oversight for:

- The integrity of PPH's financial statements.
- PPH's compliance with legal and regulatory requirements.
- The selection, performance, qualifications and independence of external auditors.
- The performance of PPH's internal audit and compliance functions.

The Committee will strive to improve and promote PPH's internal audit and compliance policies. The Committee will foster open communication among external and internal auditors, compliance, finance, senior Administration, and the Board. The Committee may obtain assistance from outside accounting, legal, or other consultants to resolve issues the Committee believes necessary to protect the organization. The Corporate Compliance Officer may also access outside legal counsel for certain sensitive compliance issues, with prior approval of the General Counsel or the Board Chair. It is expected these situations will occur in limited circumstances. PPH will provide funds to pay for the consultants.

The Committee Chair shall regularly report to, and review with the Board, any issues that arise with respect to the quality, operations, and integrity of PPH's internal audit and compliance functions.

II. Committee Membership.

A. Composition.

The Committee shall be composed of three independent board members. The District Audit Officer and the Corporate Compliance Officer will be committee members without vote. To maintain their independence, Committee members may not accept any fee for services from PPH, other than in the capacity as board members.

The Board will appoint Committee members and the Committee Chair. Members of the Committee are not required to be engaged in the accounting and auditing profession. However, at least one member of the Committee shall have past or present employment expertise in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities or accounting or related financial management expertise. The District Audit Officer will provide ongoing training to Committee members to establish the required level of expertise.

Each member shall be knowledgeable in healthcare regulations or must become knowledgeable within a reasonable period of time after appointment to the Committee. Members are not required to be engaged in the compliance profession and, consequently, some members may not have expertise in regulatory matters;
however, the Corporate Compliance Officer will provide ongoing training to establish the required level of expertise.

**B. Frequency of Meetings.**

The Committee will meet at least once during each fiscal quarter, or more frequently as circumstances dictate and as necessary to fulfill its responsibilities. At the conclusion of each Committee meeting, the General Counsel, the District Audit Officer, and the Corporate Compliance Officer may each meet individually with the Committee, without Administration present, to discuss any issues or concerns. The Committee will also meet annually with the District Audit Officer, the Corporate Compliance Officer, external auditors, and Administration to discuss the annual Audit and Compliance Plans, and audited financial statements.

**III. Duties and Responsibilities.**

The Committee shall have the following responsibilities:

1.) Maintain meeting minutes.

2.) Annually review its charter and any Committee policies and recommend any changes to the Board or Governance Committee.

3.) Meet regularly with the Board which may include closed sessions.

4.) Review and discuss with Administration and the District Audit Officer PPH's annual financial statements, all internal quality control reports and any relevant reports provided by external auditors.

5.) Appoint external auditors, with the approval of the Board. Oversee the work performed by the Internal Audit and Compliance departments for the purpose of preparing or issuing an audit or compliance report. Approve the overall audit scope and ensure audits are conducted in an efficient and cost-effective manner. Oversee the resolution of any issues between Administration and the District Audit Officer or the Corporate Compliance Officer.

6.) At least annually, obtain and review a report by the external auditors. The report shall include:

   - the external auditors' internal quality control procedures;
   - material issues arising the most recent internal quality-control review, peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more external audits carried out by the firm, and any steps taken to deal with any such issues.

7.) At least annually, obtain and review a report by a qualified independent authority, describing an assessment of the District Audit Officer and the Corporate Compliance Officer’s independence, all relationships between the District Audit Officer and the Corporate Compliance Officer and PPH.

8.) Receive periodic reports on the audit plan and the compliance program’s current policies and procedures, any changes to the compliance program, and the reasons behind the changes.
9.) Review and pre-approve both audit and non-audit services to be provided by the external auditors in accordance with the pre-approval policies and procedures. For services not requiring pre-approval under such policies and procedures, Administration shall inform the Committee of the nature of the project and the related fees with respect to such services provided by the external auditors. The Committee may delegate the authority to grant pre-approval to one or more members of the Committee with any such pre-approval reported to the Committee at its next regularly scheduled meeting.

10.) Review the integrity of PPH’s financial reporting processes and the internal control structure.

11.) Review with Administration and external auditors, major issues regarding accounting principles and financial statement presentations, including any significant changes in PPH’s selection or application of accounting principles, major issues as to the adequacy of PPH’s internal controls and any special audit steps adopted in light of material control deficiencies.

12.) Review analyses prepared by Administration and external auditors, describing significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

13.) Review with Administration the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of PPH.

14.) Review with Administration and the Corporate Compliance Officer and District Audit Officer any correspondence from or with regulatory agencies, any employee complaints or any published reports that raise material issues regarding PPH’s financial statements, financial reporting process, internal audit controls, accounting policies, or compliance with laws, rules, or regulations.

15.) Require the CEO and CFO of PPH certify the financial statements as to the following: they have reviewed the report, the report does not contain any untrue statement of a material fact or a material omission, the financial statements fairly present the financial condition of the corporation, the certifying individuals have designed and evaluated systems of internal controls to make sure they that are aware of material information concerning the corporation's operation, the signers have disclosed to the auditors and the Committee any deficiencies in the controls as well as any fraud involving Administration or other key employees.

16.) Establish procedures for the receipt, retention, tracking, and treatment of complaints received by PPH regarding regulatory, accounting, internal accounting controls or auditing matters. The Committee shall also establish procedures for the confidential and anonymous submission by employees regarding questionable matters.

17.) Consider the rotation of the lead audit partner and reviewing partner for PPH’s independent audit firm every five (5) years.

18.) Commission periodic audits, as the Committee deems necessary, to monitor the implementation and integrity of the compliance program.

19.) Maintain Committee records for seven (7) years.
20.) Review the appointment, termination, and replacement of the General Counsel, the Corporate Compliance Officer, and the District Audit Officer. Meet periodically with the Corporate Compliance Officer and District Audit Officer to discuss responsibilities, budget and staffing of PPH's internal audit and compliance functions and any issues the Corporate Compliance Officer and District Audit Officer believes warrant Committee attention. The Committee shall discuss with the Corporate Compliance Officer and District Audit Officer any significant material reports to Administration prepared by the Corporate Compliance Officer and District Audit Officer and any responses from Administration.

21.) The Committee and the CEO must be in agreement on the performance appraisals of the General Counsel, the District Audit Officer, and the Corporate Compliance Officer. The performance appraisals for those positions will be prepared by the CEO and provided to the Committee for discussion and input. The CEO and the Committee Chair will meet with the employee to discuss the performance appraisal. The Committee will also receive a copy of the employee’s written response to the performance appraisal. The employee has the right at any time to access the Committee or the Board pertaining to issues relating to employment. At no time will any retribution or retaliation be tolerated against the employee for challenging an employment action or reporting an issue to the Board. The Committee with conduct compensation reviews of the General Counsel, the District Audit Officer, or the Corporate Compliance Officer. The Committee must agree upon changing any terms or conditions of employment for those positions including changes in severance agreements.

22.) Perform an annual self-assessment regarding the Committee's purpose, duties and responsibilities outlined herein.

23.) Direct special investigations for the Board.

24.) Keep current on changes in the laws and regulations affecting the Committee.

25.) Perform any other activities consistent with this Charter, PPH's Bylaws and governing law, to fulfill its responsibilities and duties.

26.) Ensure implementation of an annual customer satisfaction survey for the internal audit and compliance functions.

27.) The District Audit Officer will make quarterly reports to the Committee regarding the percent of implemented audit recommendations, areas where the audit functions can reduce costs, avoid risks, and enhance revenue.

28.) Periodically review PPH’s ethics and compliance training program to determine the scope and effectiveness of the program and assess the return on its investment.

29.) Periodically review the compliance program’s procedures for the receipt, retention, and treatment of complaints to ensure the procedures require actions that are responsive, corrective, and confidential.

30.) Receive periodic reports from the Corporate Compliance Officer on the implementation of
31.) Make any recommendations the Committee believes necessary and appropriate to the Board regarding changes to the compliance program.

32.) Periodically review, along with the Corporate Compliance Officer, or seek credible reports on specific risk exposures, the steps taken to monitor and mitigate exposure, and the compliance program’s ability to identify such exposures.

33.) Periodically review, or seek credible reports on, the effectiveness of PPH’s Compliance Program and how Administration measures the program’s effectiveness.

34.) Review, in conjunction with the District Audit Officer and Corporate Compliance Officer, any known significant disputes between Administration and PPH’s internal or external auditors concerning matters of regulatory and corporate compliance, as well as Administration’s responses to those disputes.

35.) Monitor any audits or examinations by governmental or other regulatory agencies as applicable.

36.) Perform any other actions consistent with this Charter, Bylaws, or as the Board deems necessary.

IV. Outsourcing of Certain Investigations.

The Committee may utilize an independent investigator to review certain situations which may impair the objectivity of audit or compliance staff. This outsourcing will occur after the General Counsel consults with the Committee and Board, and the Board directs the General Counsel to hire an outside investigator. The following are examples of situations where the investigation may be outsourced. These situations are examples only and are not meant to limit the circumstances where an independent investigator may be used.

- Irregularities in travel and entertainment expenses incurred by Board and senior leadership. On an annual basis, the Director of Internal Audit will meet with the Internal Audit and Compliance Committee, and certify to the Committee that all travel expenses of the Board, CEO, and the Executive Management Team were appropriate.

- Allegations against senior leadership, including, but not limited to, inappropriate conduct, fraud, sexual harassment, and misappropriation of funds.

- Independent review of key decisions where PPH does not have sufficient staff to conduct the review, or where there may be a conflict of interest with current staff.

- Audit of governance activities/processes.

V. Scope of Authority.
The Board delegates to the Committee its power and authority to perform the duties and responsibilities under this Charter. The Committee may carry out any other responsibilities and duties delegated to it by the Board. The responsibilities of the Committee are limited to oversight. Management of PPH’s audit and Compliance Programs will be under the direction of the CEO. Administration is responsible for the preparation, presentation and integrity of PPH's financial statements as well as PPH's financial reporting process, accounting policies and procedures, internal accounting controls and disclosure controls and procedures. The independent auditor is responsible for conducting an annual audit of PPH's financial statements, and expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles. The Corporate Compliance Officer is responsible for conducting an annual evaluation of PPH's Compliance Program, and expressing an opinion as to the conformity of the program with regulatory requirements. It is not the responsibility of the Committee to plan or conduct audits or to determine that PPH's audit program, compliance program, financial statements and disclosures are complete and accurate and in accordance with generally accepted guidelines, applicable laws, rules and regulations. Each member of the Committee shall be entitled to rely on the integrity of those persons within PPH and of the professionals and experts from which the Committee receives information and, absent actual knowledge to the contrary, the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts.

VI. Reporting Relationships.

The General Counsel, the District Audit Officer, and the Corporate Compliance Officer shall have dual reporting relationships to both the CEO and the Committee. This is further described in the attached chart.

January 22, 2010
I. PURPOSE:

A. Palomar Pomerado Health's (PPH) mission is to heal, comfort and promote health in the communities we serve. PPH is committed to improve continuously the quality of patient care and to work for the improvement of the overall health status of the population it serves. In furtherance of the mission, PPH maintains high ethical standards, as stated in the PPH Code of Ethics (PPH policy GOV-14) and does its best to comply with both the letter and spirit of all applicable laws and regulations.

B. PPH recognizes that in the current health care environment, the interpretation of Medicare reimbursement regulations as well as laws governing all types of financial relationships between and among hospitals, physicians and other medical providers is constantly evolving and has become increasingly complex. PPH has developed a program (the Corporate Compliance and Integrity Program) to ensure that PPH provides for effective and efficient delivery of quality health care and health-related services in compliance with applicable laws. Specifically, it establishes (and confirms existing) standards and procedures, with a focus on PPH's effort to be honest and ethical with laws governing (i) financial relationships between hospitals and physicians or other potential sources of referrals (e.g., anti-kickback and anti-referral laws), (ii) Medicare reimbursement, (iii) private benefit, and (iv) conflicts of interest.

C. The Corporate Compliance and Integrity Program is intended to enable PPH and its agents and employees to be honest and ethical in all we do. The Corporate Compliance and Integrity Program sets out procedures designed to ensure that PPH, its agents and employees follow applicable laws that prohibit paying any form of unlawful remuneration to a referral source with the intent to induce patient referrals from that source, and is also designed to make certain that PPH's billing and cost reporting practices comply with legal requirements.

D. The Corporate Compliance and Integrity Program will cover all physician-hospital relationships, including physician loans or income guarantees, professional service agreements, community service agreements, physician recruitment/retention agreements, medical office building leases, rental equipment agreements, medical directorships, marketing agreements, as well as joint ventures and physician practice purchases, and any other financial relationships which may arise.

E. To further PPH's responsibility to be honest and ethical, it is imperative that employees have a working knowledge of the federal and state laws that govern these relationships. This knowledge will be an essential part of every affected employee's job performance and a regular part of that employee's review.

II. DEFINITIONS:

1. Conflicts of Interest - Any relationship, influence, or activity that might impair, or even appear to impair, the employees ability to make objective and fair decisions when performing the duties of their job. Any situation that might place an employee in a position requiring the employee to choose between their personal or financial interest and the interests of Palomar Pomerado Health.

2. Questionable Gifts or Favors - Giving or receiving anything of economic value, including a kickback, bribe or rebate, in cash or in-kind either in return for or to induce a patient referral or to induce the purchase, lease or order of any good, service, or item. Permissible exceptions are offering or accepting advertising or promotional items of nominal value, such as coffee mugs, calendars, or items displaying a company logo.

3. Supplier Relationships - Suppliers must be selected on the basis of price, quality, performance and suitability of product or service, delivery, service, reputation and, where applicable, the open bidding requirements of the California Local Health Care District Law. Nothing will be accepted from an existing or potential supplier that might compromise, or appear to compromise, the PPH's objective assessment of the items being purchased. Employees will not solicit, or use their position with PPH to secure special discounts or favorable treatment from suppliers.

4. Antitrust - Laws, which regulate competition. Examples of prohibited conduct include: (i) agreements to fix prices, bid rigging, collusion (including price sharing) with competitors; (ii) boycotts, certain exclusive dealing and price discrimination agreements; and (iii) unfair trade practices including bribery, deception and
intimidation.

5. Fraud and Abuse - Fraud is the intentional deception or misrepresentation that an individual knows to be false or does not believe to be true and makes, knowing that the deception could result in some unauthorized benefit to himself/herself or some other person or entity. The most frequent kind of fraud arises from a false statement or misrepresentation made, or caused to be made, that is material to entitlement or payment under the Medicare program.

Abuse are those incidents or practices which, although not considered fraudulent acts may directly or indirectly cause financial losses to the Medicare/Medicaid program or to beneficiaries/recipients. Abuse are those practices wherein providers, physicians or other suppliers of health care goods or services operate in a manner inconsistent with accepted sound fiscal, business, or medical practices in such a way that these practices result in an unnecessary financial loss to the Medicare or Medicaid program and are not within the concept of reasonable or necessary services as defined in the Medicare or Medicaid laws.

6. Kick Back - Remuneration solicited or received directly or indirectly, overtly or covertly, in cash or in kind: (1) in return for referring an individual to an individual or entity for the furnishing or arranging for the furnishing of any item or service for which payment may be made in whole or in part under any health care program or (2) in return for purchasing, leasing, ordering, or arranging for or recommending purchasing, leasing or ordering any good, facility, service, or item for which payment may be made in whole or in part under any health care program.

III. TEXT / STANDARDS OF PRACTICE:

A. General Information
1. Any action taken in violation of the Corporate Compliance and Integrity Program is outside the scope of employment and could subject the individual to serious sanctions, including termination of employment and criminal prosecution.
2. Employees will receive education regarding the Corporate Compliance and Integrity Program, and relevant laws. Any employee who has questions or concerns about anything discussed regarding the Corporate Compliance and Integrity Program should contact the Corporate Compliance and Integrity office. A toll-free corporate Compliance and Integrity helpline will be established to provide employees with a confidential way to raise their concerns.
3. PPH in-house legal counsel in the administration of the Corporate Compliance and Integrity Program. The Compliance Officer will reserve the right to use an outside legal counsel if required.
4. The Corporate Compliance and Integrity Program cannot address every aspect of PPH's activities and the applicable legal issues they may entail. As such, employees and agents should consult PPH's established policies and procedures and seek guidance of the Director Corporate Compliance and Integrity or legal counsel, with respect to any other issues that may arise.
5. The Director Corporate Compliance will always have direct access to the Board without the CEO present.

B. Business Standards
Each new employee, medical staff member and each new PPH Board Member is required to have open access to PPH Corporate Compliance and Integrity Procedures, PPH Code of Conduct, PPH Code of Business Standards, and to sign an Employee Compliance Attestation Form.

C. Admission
1. PPH will make every effort to provide for the effective and efficient delivery of quality health care and health-related services and believes that collaborating with physicians and other medical providers to develop an innovative health care delivery system that meets individual and community needs is the best means of attracting physicians and patients to make use of its facilities.
2. Admissions, medical treatment and length of stay at PPH are determined with regard for the medical needs of the patient only. PPH will not provide any compensation or benefits to any physician, practice group or employee on the basis of increasing admissions.
3. If an employee believes that any physician is admitting patients or providing treatment on a basis other than medical need, that employee will report such concerns to his/her supervisor and/or the Corporate Compliance and Integrity office.

D. Discharge
Arrangements for patient discharges from PPH will be handled by PPH employees, who will accurately log all discharges, or by the patient's family, as appropriate. When discharging a patient in need of non-acute care services, PPH will disclose the availability of non-acute care services in the area, including the names
of each relevant provider participating in the Medicare program who requests to be listed. PPH shall not
specify or otherwise limit a patient's choice of provider. PPH shall disclose to each patient in writing whether
PPH has a financial interest in any provider to which the patient is referred, or whether any such provider has
a financial interest in PPH. PPH Policy, QLT-23 Discharge Policy

E. Patient Referrals
1. Physicians with privileges at PPH's facilities, and PPH employees, will make referrals on the basis of
the best interest of the patient. PPH will provide no compensation, gift or gratuity of any kind in
exchange for, or to induce, the referral of patients. State and federal law prohibits the offer or payment
of any compensation to any party for the referral of patients. Subject to certain exceptions established
by statute and regulation, the law also prohibits referrals for certain services to an entity with which the
referring physician has a financial relationship. PPH employees will refrain from soliciting, offering or
receiving any payment or remuneration of any kind in exchange for referring or recommending the
referral of patients to any physician or medical facility.
2. Legal counsel will always be consulted in the drafting or review of any non-standardized legal
arrangements with physicians.
3. PPH will not routinely waive insurance co-payments or deductibles or provide other incentives to induce
patients to receive services from PPH. On a case-by-case basis, and where required by the financial
need of the patient, PPH may provide discounted or free medical care. The financial need in all such
cases shall be documented. The Chief Finance Officer/CFO or CEO will make all decisions to waive
any co-pay, deductible or any other adjustments in charges and payments.

F. Enforcement and Discipline
1. PPH will maintain a zero tolerance policy towards illegal conduct. PPH will accord no weight to an
employee's claim that any improper conduct was undertaken for the benefit of PPH. Any conduct which
violates the law or regulations is not for the benefit of PPH and is in express opposition to PPH's codes,
policies and procedures
2. The standards established in this Corporate Compliance and Integrity Program will be consistently
enforced, as necessary, through disciplinary measures. In determining the appropriate discipline for any
violation of the Corporate Compliance and Integrity Program, PPH will not take into consideration a
particular employee's economic benefit to PPH. All improper conduct of the same magnitude will be
accorded the same sanctions. Moreover, where appropriate, discipline will be enforced against
employees for failing to report known wrongdoing.
3. PPH policy prohibits any retaliatory action against an employee for making a formal or informal report to
the Director of Corporate Compliance. However, employees may not use the help line or otherwise
make a formal or informal report to the Director of Corporate Compliance in an effort to insulate
themselves from the consequences of their own wrongdoing or misconduct.

G. Compliance With the Law
It is the policy of the District to comply with all federal, state and local laws and regulations that apply to our
business. Any questions or concerns regarding specific laws, regulations or any legal issue should be
promptly brought to the attention of the Compliance Officer.

H. Quality of Service
PPH is committed to providing services of the highest quality and value to our customers. In providing our
services, PPH will strive to provide prompt and accurate services consistent with contractual benefits, District
policies, procedures and regulatory requirements.

I. Work Environment
PPH is committed to maintaining a work environment where PPH employees treat each other with honesty,
dignity and respect. PPH values the diverse contributions of all people, regardless of their position, sexual
preference, family status, age, race, sex, disability, religion or national origin. All employment practices are
based on ability and performance.

J. Conflict of Interest
PPH employees must avoid situations where our personal interests could conflict, or reasonably appear to
conflict, with the interest of the District. PPH employees must be free of actual, apparent or potential conflicts
of interest when dealing with persons or business entities on behalf of the District. A conflict of interest
occurs whenever an employee permits the prospect of direct or indirect personal gain to improperly influence
his or her judgment or actions in the conduct of District business. It is not possible for the Code of Business
Conduct to list every type of potential conflict of interest. When in doubt, share the facts of the situation with
your Supervisor or the Compliance Department. PPH policy GOV-03 is the Conflict of Interest Code.

K. Gifts, Gratuities and Kickbacks
PPH maintains the high standards of integrity and objectivity in dealing with vendors, payers and service
providers. PPH employees are prohibited from accepting or giving gifts or gratuities beyond common business courtesies of nominal value. Gifts or items of value should never be offered to government employees. Under no circumstances will PPH employees accept or give kickbacks in return for improperly obtaining, influencing or rewarding favorable treatment in obtaining contracts, services, referrals, goods or business. District employees will never accept or borrow money from patients or patient families.

L. Accuracy of Records
Accuracy and reliability in the preparation of all business records is mandated by law and is of critical importance to the District's decision making processes and to the proper discharge of our financial, legal and reporting obligations. PPH must ensure that all District records, business expense accounts, vouchers, bills, payrolls, service records and reports, whether electronic or on paper, are reliable, accurate and complete. Transactions between the District and outside individuals and organizations must be promptly and accurately entered in District records in accordance with District policies and procedures. PPH employees must never misrepresent facts or falsify records. False or misleading entries on records are unlawful and are not permitted. All records should be stored for the period of time required by applicable law or contract or District policy, whichever is longest.

M. Confidentiality of Information
PPH must protect the confidentiality of the information handled by the District. Because these documents and records often contain confidential patient or business information, it is critical that information from these documents and records not be improperly disclosed to third parties. PPH employees will take precautions to avoid accidental disclosures of confidential or privileged information, records or documents. All HIPAA rules will be followed. Within the District, PPH will share confidential information only with those employees who have a legitimate need to know the information. PPH will maintain and protect the confidentiality of information handled by the District and other proprietary or confidential information even after termination of employment with the District.

N. Fair Competition
The District is committed to a policy of vigorous, lawful and ethical competition that is based on the merits of our products and services. PPH will maintain the trust of our customers and payers by developing and providing high quality products and services in a fair, ethical and legal manner.

O. Proper Use of District Assets
District assets are to be used for the benefit of the organization. District assets include, but are not limited to, equipment, furniture, office supplies, District funds, employee time, and computer supplies and software. In addition, District assets also include District data, business strategies and plans, financial data, and other proprietary or confidential information about the organization business or its employees. PPH employees have a responsibility to protect the organization's assets and to ensure that they are used exclusively for valid District purposes.

P. Cooperating With the Government
PPH employees will cooperate with all reasonable requests for information from governmental agencies. All information provided will be truthful and accurate. Requests for information other than routine forms must be forwarded to the Compliance Officer.

Q. Political Activity
Federal laws restrict the use of District funds in connection with federal elections, and there are similar laws in many states. It is the policy of the District that neither District funds, the District name, nor District facilities shall be used directly or indirectly for political purposes on behalf of candidates for political office, political parties or elected incumbent office holders at any level, federal, state or local, except as permitted by law. The District will not reimburse employees for contributions to political candidates or causes. PPH Policy GOV-27, Political Activities on PPH Property.

R. Organizational Structure
The corporate compliance officer reports to the board of directors and the president and chief executive officer for Palomar Pomerado Health the Board of Directors of Palomar Pomerado health provide strategic direction through this Board policy. The compliance officer is a nonvoting member of the Board Governance Committee and makes reports to that committee. The compliance oversight committee will consist of members from across the District. This committee will have the responsibility of assisting The Compliance Officer in the implementation of the compliance program. The Corporate Compliance Officer shall report to the President and Chief Executive Officer for Palomar Pomerado Health regarding the compliance program on an ongoing day to day basis, report the activities of the compliance program to the Board Governance Committee quarterly and the Board of Directors annually, and report all legal and ethical compliance issues as appropriate and/or required.

S. REVIEW
This policy will be reviewed and updated as required or at least every three years.
IV. ADDENDUM:

V. Document Publication History

VI. Cross Reference Documents

1. PPH Policy GOV-14 Code of Ethics.
2. PPH Policy GOV-03 Conflict of Interest Code.
3. PPH Policy GOV-27 Political Activities on PPH Property.
4. PPH Policy QLT-23 Discharge Policy.

V. DOCUMENT / PUBLICATION HISTORY: (template)

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<th>Effective Date</th>
<th>Document Owner at Publication</th>
<th>Description</th>
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<td>(this version) 3</td>
<td>11/14/2007</td>
<td>Ofer Barlev</td>
<td>Changes recommended as part of review cycle. Added at review: No material change made to text of document. Updated signatures to current signers.</td>
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<td>James Neal, Director of Corporate Integrity</td>
<td>Changes recommended as part of review cycle.</td>
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<td>James Neal, Director of Corporate Integrity</td>
<td>Updated version</td>
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Authorized Promulgating Officers: ( 01/06/2010 ) Janine Sarti, General Counsel ( 01/07/2010 ) Bruce G Krider, Board Chairman, PPH Board

VI. CROSS-REFERENCE DOCUMENTS: (template)

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VI. **CROSS-REFERENCE DOCUMENTS:**

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https://www.lucidoc.com/cgi/doc-gw.pl?ref=pphealth:21781
Annual Certification, Chief Executive Officer

I, Michael Covert, hereby certify as follows:

- that I have personally reviewed the report of the external auditors of PPH, Deloitte and Touche, LLP and the accompanying financial statements;
- that the report does not contain any untrue statement of a material fact or a material omission,
- that the financial statements fairly present the financial condition of the corporation,
- that I have designed and evaluated systems of internal controls to make sure that I am aware of material information concerning the District’s operation,
- that I and those reporting to me disclosed to the auditors and the Committee any deficiencies in the controls, as well as any fraud involving Administration or other key employees, that I and they were aware of, if any.

Michael H. Covert, FACHE

Date 10/6/10
Annual Certification, Chief Financial Officer

I, Robert Hemker, hereby certify as follows:

- that I have personally reviewed the report of the external auditors of PPH, Deloitte and Touche, LLP and the accompanying financial statements;
- that the report does not contain any untrue statement of a material fact or a material omission;
- that the financial statements fairly present the financial condition of the corporation;
- that I have designed and evaluated systems of internal controls to make sure that I am aware of material information concerning the District’s operation;
- that I and those reporting to me disclosed to the auditors and the Committee any deficiencies in the controls, as well as any fraud involving Administration or other key employees, that I and they were aware of, if any.

[Signature]

Robert Hemker  12/9/10
Date
## AUDIT & COMPLIANCE COMMITTEE SELF-ASSESSMENT QUESTIONNAIRE

Name __________________________

Date __________________________

<table>
<thead>
<tr>
<th>1. Purpose &amp; Responsibilities</th>
<th>Yes, Without Qualification</th>
<th>Yes, But Could Be Improved</th>
<th>Partially, But Needs Improvement</th>
<th>Comments/Suggestions</th>
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<tr>
<td><strong>Charter:</strong> Is Committee direction set by a clear charter approved by the full Board, understood by all Committee members, and used to guide Committee activities?</td>
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<td><strong>Role:</strong> Do Committee members listen empathetically, balanced by the ability and courage to challenge and act where necessary?</td>
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<td><strong>Reporting:</strong> Are there meaningful, timely, and focused reports to the Board?</td>
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<td><strong>Expectations:</strong> Are Committee expectations clearly discussed with, and understood by, management, auditors, and other advisors?</td>
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<td>Does the Committee oversee the integrity of the organization’s auditing, accounting and financial reporting processes?</td>
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<tr>
<td>Does the Committee oversee the appointment, retention, qualifications and performance of the organization’s internal audit function and independent auditors, including pre-approval of services (both audit and non-audit)?</td>
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<td>Does the Committee assist in ensuring the adequacy of the organization’s systems of disclosure controls and internal controls?</td>
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<tr>
<td>Does the Committee review in advance the organization’s annual financial audit?</td>
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</table>
Does the Committee review and evaluate the internal audit function of the organization, including its independence from management, reporting obligations to the Committee, and the coordination of its plans with the independent auditors?

Does the Committee review and evaluate the Compliance and Ethics function of the organization including its independence from management and reporting obligations to the Committee?

<table>
<thead>
<tr>
<th>2. Composition</th>
<th>Yes, Without Qualification</th>
<th>Yes, But Could Be Improved</th>
<th>Partially, But Needs Improvement</th>
<th>Comments/Suggestions</th>
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</thead>
<tbody>
<tr>
<td><strong>Membership:</strong> Does the Committee have a mix of relevant talents to address a range of issues and risks pertinent to the Committee?</td>
<td></td>
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<td><strong>Leadership:</strong> Does the Committee have a strong, yet not dominant, chair with knowledge of relevant matters and strong leadership skills?</td>
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<td><strong>Independence:</strong> Are all members independent in mindset, bringing consistently objective insight to all aspects of monitoring and oversight activities?</td>
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<td><strong>Teamwork:</strong> Are there strong relationships and trust among members?</td>
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<tr>
<th>3. Process</th>
<th>Yes, Without Qualification</th>
<th>Yes, But Could Be Improved</th>
<th>Partially, But Needs Improvement</th>
<th>Comments/Suggestions</th>
</tr>
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<tbody>
<tr>
<td><strong>Resources:</strong> Is the right information received at the right time, focused on key performance measures and important current &amp; potential issues?</td>
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</table>
4. Priority Setting: I believe the Committee should focus on the following priorities for the upcoming year.

A.

B.

C.

5. Is (are) there any other change(s) that would improve the Committee’s effectiveness that you would suggest?

A.

B.

6. Last year, the Committee cited these factors as areas for focus in FYXX. Please assess the progress made on these issues:

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<th>Improved</th>
<th>Stayed Same</th>
<th>Regressed</th>
<th>Comments</th>
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