AGENDA

Call to Order

- Public Comments

<table>
<thead>
<tr>
<th>Item</th>
<th>Presenter</th>
<th>Page</th>
<th>Mins</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. *Committee Charter &amp; Job Description</td>
<td>N. Bassett</td>
<td>5-11</td>
<td>5</td>
</tr>
<tr>
<td>3. *Annual Agenda</td>
<td>N. Bassett</td>
<td>12</td>
<td>5</td>
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<tr>
<td>5. Pharmacy Audit</td>
<td>T. Boyle</td>
<td>14-15</td>
<td>20</td>
</tr>
<tr>
<td>6. Accounts Payable Audit</td>
<td>T. Boyle/S. Love</td>
<td>16-18</td>
<td>20</td>
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<tr>
<td>7. Construction Audit – Feedback</td>
<td>T. Boyle/W. Cohen</td>
<td>N/A</td>
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<tr>
<td>8. External Audit Engagement</td>
<td>T. Boyle</td>
<td>N/A</td>
<td>5</td>
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<tr>
<td>10. Risk Assessment Results &amp; 2011 Audit Plan</td>
<td>T. Boyle</td>
<td>47-49</td>
<td>5</td>
</tr>
<tr>
<td>11. Audit Technique – Committee Education</td>
<td>T. Boyle</td>
<td>50-60</td>
<td>10</td>
</tr>
<tr>
<td>12. *Date/Time/Location of Next Meeting (Feb. 17th)</td>
<td>N. Bassett</td>
<td>N/A</td>
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<tr>
<td>13. Adjournment</td>
<td>N. Bassett</td>
<td>N/A</td>
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Adjournment

Nancy Bassett, R.N, Chairman                                     Michael Covert, CEO                        John Lilley, M.D.
Ted Kleiter, Director                                             Janine Sarti, General Counsel               Lachlan Macleay, M.D,
Bruce Krider, Director                                            Bob Hemker, CFO                            
Linda Greer, R.N. Board Chair, alt.                               Tom Boyle, District Audit Officer          
Marty Knutson, Corporate Compliance 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”.

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### Call to Order
5:15 P.M. by Director Bassett.

Present: Directors Kaufman and Greer

**Also attending:** Michael Covert, Bob Hemker, Tom Boyle, Marty Knutson, Lachlan Macleay, M.D., John Lilley, M.D., and Janine Sarti.

### Notice of Meeting
Notice of Meeting was posted consistent with legal requirements.

### Public Comments
There were no members of the public present.

### Approval of Minutes

<table>
<thead>
<tr>
<th>AGENDA ITEM/PRESENTER</th>
<th>DISCUSSION</th>
<th>CONCLUSIONS/ACTION</th>
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<tbody>
<tr>
<td><strong>November 18, 2010</strong></td>
<td><strong>MOTION:</strong> by Director Greer, 2nd by Director Kaufman and carried to approve the minutes of November 18, 2010 as submitted. All in favor. None opposed.</td>
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<tr>
<td><strong>Compliance &amp; Ethics Committee Report (2 months)</strong></td>
<td>Mr. Hemker reported on the Compliance and Ethics activity for the months of November and December. The full reports were included in the packet for the committee’s review. The Compliance and Ethics Committee members presented the new Conflict of Interest procedure at the Leadership meeting in December. Vendors have been notified of the “zero gifts” standard. The committee will be creating a work plan based on</td>
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<td>AGENDA ITEM/ PRESENTER</td>
<td>DISCUSSION</td>
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<td>specific risks that were identified by them; some of the risks identified were data security, HIPAA, and conflict of interest issues.</td>
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<td></td>
<td>Physician contracting training was successfully completed by management.</td>
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<td></td>
<td>Director Bassett complimented the Compliance and Ethics Committee members for their collaborative efforts.</td>
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<tr>
<td>• Code of Conduct Status Report</td>
<td>Ms. Knutson reported that the Code of Conduct was adopted by the PMC MEC with a few requested changes. It will go to the POM MEC in January.</td>
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<td></td>
<td>The latest version of the Code of Conduct was reviewed by the committee.</td>
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<td>The education and roll out plan of the Code of Conduct is currently in the planning phase.</td>
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<td>• Mission, Vision and Values Plaques</td>
<td>The committee previewed samples of the values plaque that will replace existing plaques throughout the organization. The proof of the Code of Conduct commitment badge pin was also presented to the committee. Actual samples of the pins will be available in approximately two weeks.</td>
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<tr>
<td>• Annual Financial Audit Policy</td>
<td>The Annual Financial Audit policy was included in the packet for the committee’s review.</td>
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<td></td>
<td>It was agreed upon that the policy needs to be revised to reflect the Internal Audit and Compliance Committee Charter.</td>
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<tr>
<td>• Compliance Program Policy</td>
<td>The Compliance Program Policy was included in the packet for the committee’s review. The Compliance and Ethics committee will work on and recommend a Compliance and Ethics plan, rather than a program. A drafted policy will be presented to the Audit and</td>
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<thead>
<tr>
<th>CONCLUSIONS/ACTION</th>
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Mr. Hemker and Ms. Knutson will work together to bring a draft of the policy back to the committee for approval in January.
### AGENDA ITEM/ PRESENTER

<table>
<thead>
<tr>
<th>DISCUSSION</th>
<th>CONCLUSIONS/ACTION</th>
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<tbody>
<tr>
<td>Compliance Committee for approval when it is completed.</td>
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<tr>
<td>• Certifications of the CEO &amp; CFO</td>
<td>MOTION: by Sarti, 2\textsuperscript{nd} by Lilley and carried to approve and accept the CEO and CFO certifications of the financial statements as required by the Internal Audit and Compliance Committee Charter. All in favor. None opposed.</td>
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<tr>
<td>The CEO &amp; CFO certification of the financial statements were included in the packet for the committee’s review.</td>
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<td>It was noted that the financial statement certification requirement outlined in the Internal Audit and Compliance Committee Charter has historically been carried out through the management letters at the end of the financial statement audit.</td>
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<td>Mr. Hemker recommended striking item #15 referencing the certification of the CEO and CFO of the Internal Audit and Compliance Committee Charter.</td>
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<td>• Committee Self-Assessment</td>
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<td>The committee provided input and rated the performance of the committee throughout 2010.</td>
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<tr>
<td>• Internal Audit Update</td>
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<td>Mr. Boyle stated he will be presenting the details of the Audit Plan for 2011 at the January meeting.</td>
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<tr>
<td>• Date/Time &amp; Location of next meeting</td>
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<tr>
<td>The next meeting of the Internal Audit and Compliance Committee is tentatively scheduled to be held on Thursday, January 20, 2011 at 5:15 p.m. in the 456 E. Grand Conference Room.</td>
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</table>

### ADJOURNMENT

The meeting was adjourned at 6:18 P.M. Director Bassett moved to adjourn.

### SIGNATURES

<table>
<thead>
<tr>
<th>Committee Chairperson</th>
<th>[Nancy Bassett, R.N., M.B.A.]</th>
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<tbody>
<tr>
<td>Secretary to Committee</td>
<td>[Lanissa Weddington]</td>
</tr>
</tbody>
</table>
I. Purpose

The 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, Corporate Compliance Officer, General Counsel, Chief Executive Officer and a representative from each medical staff 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 of the audit firm’s 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.
7. Receive periodic reports on the audit plan and the compliance plan's current policies and procedures, any changes to the compliance plan, and the reasons behind the changes.

8. 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.

9. Review the integrity of PPH's financial reporting processes and the internal control structure.

10. 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.

11. 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.

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

13. 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.

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.

14. 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.

15. Consider the rotation of the lead audit partner and reviewing partner for PPH's independent audit firm every five (5) years.
16. Commission periodic audits, as the Committee deems necessary, to monitor the implementation and integrity of the compliance plan.

17. Maintain Committee records for (7) seven years.

18. 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.

19. 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 receive a copy of the employee's written response to the performance appraisal. The Committee will also receive a copy of any other documentation regarding the employee’s performance. 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.

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

21. Direct special investigations for the Board.

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

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

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

25. 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.

26. 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.
27. Periodically review the compliance plan’s procedures for the receipt, retention, and treatment of complaints to ensure the procedures require actions that are responsive, corrective, and confidential.

— Receive periodic reports from the Corporate Compliance Officer on the implementation of

28. Make any recommendations the Committee believes necessary and appropriate to the Board regarding changes to the compliance plan.

29. 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 plan’s ability to identify such exposures.

30. Periodically review, or seek credible reports on, the effectiveness of PPH’s Compliance Plan and how Administration measures the plan’s effectiveness.

31. 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.

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

33. 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 Internal Audit Officer will meet with the 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 Plan 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 Plan, and expressing an opinion as to the conformity of the plan 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 plan, 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 20, 2011
Function:

It is the responsibility of the Board Member to insure that appropriate review mechanisms and management of the District’s assets and resources are in place, that the organization complies with all applicable local, state and federal regulations, and to oversee the audit and financial stewardship of Palomar Pomerado Health.

Responsibilities:

1. Approve the annual program and scope of all audits to be performed by the District Audit Officer.
2. Routinely review the system of internal controls for the organization and its subsidiaries.
3. Recommend a qualified audit firm to complete independent financial audits of the system and review reports, management letters and recommendations from the firm to assure compliance with recognized audit principles and standards throughout PPH.
4. Participate in special investigations for the Board as may be assigned.
5. Regularly review reports from the District Audit Officer and the CEO and where appropriate make recommendations on system controls and improvements that could insure effective stewardship of the organization.
6. Keep up with trends in the field of health care audit and compliance to help educate other Board members on the latest trends in the industry.
7. Ensure the effectiveness of PPH Compliance efforts.
8. Complete other duties as may be assigned by the Chairman.

Requirements:

1. Interest and willingness to commit the time and energy necessary to meet committee responsibilities and meeting requirements.
2. Knowledge of health care finance audit processes and compliance is helpful.
3. Compliance with other Board position description requirements.
## Audit & Compliance Committee of the Board of Directors
### Annual Agenda — Calendar Year 2011

<table>
<thead>
<tr>
<th>MONTH</th>
<th>FACILITATOR</th>
<th>TOPICS</th>
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<tbody>
<tr>
<td>JANUARY</td>
<td>Boyle</td>
<td>• Review Charter, Committee Policies, and Bylaws</td>
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<td>• Review Job Description</td>
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<td>• Set 2011 Committee Annual Agenda</td>
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<td>• The Audit Plan 2011</td>
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<td>FEBRUARY</td>
<td>Knutson</td>
<td>• Compliance and Ethics Committee Report</td>
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<td>• 2Q Hotline Report</td>
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<td>• Compliance Plan Policy</td>
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<td>MARCH</td>
<td>Boyle</td>
<td>• Review External Audit Engagement</td>
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<td>• Review of Internal Audit Activities</td>
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<td>APRIL</td>
<td>Knutson</td>
<td>• Compliance and Ethics Committee Report</td>
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<td>• Compliance and Ethics Training Plan</td>
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<td>MAY</td>
<td>Boyle</td>
<td>• 3Q Hotline Report</td>
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<td>• Review of Internal Audit Activities</td>
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<td>JUNE</td>
<td>Knutson</td>
<td>• Compliance and Ethics Committee Report</td>
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<td>• Report on District Audit Officer’s and Compliance Officer’s Independence</td>
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<td>• Review Results of Internal Customer Satisfaction Survey</td>
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<td>• Annual Evaluation of Compliance Plan</td>
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<td>JULY</td>
<td>Boyle</td>
<td>• Review of Internal Audit Activities</td>
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<td>AUGUST</td>
<td>Knutson</td>
<td>• Compliance and Ethics Committee Report</td>
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<td>• 4Q Hotline Report</td>
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<td>SEPTEMBER</td>
<td>Boyle</td>
<td>• Review of Internal Audit Activities</td>
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<td>• Review IA Certification of Travel Expenses</td>
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<td>OCTOBER</td>
<td>Knutson</td>
<td>• Compliance and Ethics Committee Report</td>
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<td>• Review of Financial Statements and External Auditor’s Report</td>
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<td>NOVEMBER</td>
<td>Boyle</td>
<td>• 1Q Hotline Report</td>
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<td>• Review of Internal Audit Activities</td>
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<td>DECEMBER</td>
<td>Knutson</td>
<td>• Committee Self-Assessment</td>
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<td>• Compliance and Ethics Committee Report</td>
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<td>• Review Results of Internal Customer Satisfaction Survey</td>
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</table>
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:

N/A

III. TEXT / STANDARDS OF PRACTICE:

A. The Audit and Compliance Committee shall engage a qualified firm to conduct an independent, financial audit annually.

B. The Committee shall review the audit process, all audit reports and make appropriate recommendations to the board as outlined in the committee’s charter.

C. This policy will be reviewed and updated as required or at least every three years.

IV. ADDENDUM:

N/A

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

VI. CROSS-REFERENCE DOCUMENTS (template)

<table>
<thead>
<tr>
<th>Reference Type</th>
<th>Title</th>
<th>Notes</th>
</tr>
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<tbody>
<tr>
<td>Source Documents</td>
<td>Prior to 2005 this policy was Board Policy 10-502</td>
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</tbody>
</table>

Paper copies of this document may not be current and should not be relied on for official purposes. The current version is in Lucidoc at:

https://www.lucidoc.com/cgi/doc-gw.pl?ref=pphealth:21808
Date: December, 2010
To: Janice Murray, Mgr Pharmacy Services PMC
    David Tam, Chief Administrative Officer POM
From: Tom Boyle, District Audit Office, PPH
Subject: Audit of the Pharmacy

Pharmacy Audit 2010

A review of the Pharmacy Departments of PPH was performed as a scheduled project, established in the 2010 Audit Plan. The scope of the assessment included business and operational processes affecting drug supplier contracting, vendor payments, inventory management, labor costs, rebate-management, purchasing, revenue and management of business goals. The review included the inpatient pharmacy functions at both Palomar Medical Center, and Pomerado Hospital. The pharmacies rely on the use of computerized systems for dispensing and charge-capture. The department's functions include dispensing, patient billing, drug purchasing, patient safety, formulary maintenance, and regulatory compliance.

Fieldwork was conducted beginning in July 2010 in coordination with 20/20 Healthcare Advisory Services. Audit procedures included interviews, physical observations, inspection of documents, financial analysis, electronic data analysis and other procedures.

The following key recommendations are a summary of the 35 page audit report, issued to PPH Pharmacy management.

Controls over Supplier Contracting

- Improve the purchasing process, consider competitive bidding.
- Make contracts more accessible for reference and ultimately assurance of adherence to contract terms
- Ensure that supplier costs are verified for accuracy and invoices/statements are routinely reviewed and approved.
- Evaluate potential savings by competitive bidding of drug/supply purchases or renegotiate the current contract
• Minimize the potential for errors and overpayments by simplifying the methodology for determining payment terms.

**Controlled Substances**
Improve the processes related to the receipt, safekeeping, distribution, and reconciliation of controlled substances, investigation of shortages, and the review of medication administration to promptly identify anomalies.

**Inventory Management**
Improve processes to optimize inventory levels and improve controls of loaning drugs, in order to minimize the costs of expired drugs and reduce carrying costs.

**Drug Costs**
• Consider tracking the effectiveness of converting to lower-cost alternatives as a Balanced Scorecard measure, to help sustain positive results
• Maximize the use of earned rebates.

**Patient Safety**
• Continue efforts to improve the systems to identify adverse drug events
• Ensure the timely inspection for expired drugs.
• Ensure that formulary drugs are reviewed annually

**Physical Security**
• Consider installing a silent alarm at POM’s front window to the Pharmacy.
• Improve the location of the fire extinguisher at PMC.
• Consider establishing a code word for calling security during a hostile encounter.
AUDIT REPORT #2010-02

Date: October 13, 2010

To: Stephanie Love, Director of Finance, PPH
    Kristine Roberts, Interim Supervisor of AP, PPH

From: Lucy Maxwell, Senior Internal Auditor, PPH

Subject: Audit of the Accounts Payable Process

Background

Accounts Payable ("AP"), is a division of the Finance Department, which processes all disbursements for Palomar Pomerado Health ("PPH") through the Enterprise facility located at 2227 Enterprise St, Escondido, CA. Invoices for payments are typically received directly by the AP department.

Audit Objective and Scope

Internal Audit Services conducted an audit of the AP process for Palomar Pomerado Health ("PPH"). The audit evaluated the adequacy of the controls environment of AP, including the processes in place to ensure accurate and timely identification, authorization, processing, managing and reporting of disbursements.

Audit Procedures

Audit procedures included the following:

- Interviewed operational and administrative personnel within PPH, as applicable, related to the review, approval and monitoring of AP transactions.
- Random sample of 20 selected A/P disbursements.
- Performed entailed analysis and tests on the sample selection including but not limited to the following:
  - Determine if internal controls surrounding the AP process are in place and operating as designed;
  - Establish if AP transactions include complete and accurate documentation to support all payments;
  - Determine if payments are captured completely, accurately and on a timely basis;
  - Assess whether the overall AP process is efficient and effective.
- Assess the existence and adequacy of controls in place over the areas of the audit scope.
- Review the applicable corporate policies, procedures and guidelines for the areas of the audit scope.
It is important to mention that during the performance of our audit procedures, other PPH’s areas and/or departments were included within the review, such as Supply Chain (Purchasing, Buyers, and Receiving), and Information Technology (“IT”). Due to the extent of the audit scope, the applicable findings are reported to respective management of each area for their review and consideration.

**Conclusion**

In our opinion, the controls with respect to accounts payable are effective. However, we noted opportunities for improvement, which are broadly mentioned in the following summary of findings. A more detailed disclosure of the findings is documented for your information after this summary.

**SUMMARY OF AUDIT OBSERVATIONS**

1. **Accounts Payable Policies, Procedures and Guidelines:** Departmental policies, procedures and guidelines should be updated to reflect current process expectations and standards for data entry, reconciliation auditing, and monitoring by AP personnel.

2. **Duplicate Invoices:** The Lawson system does not allow entering a duplicate invoice; however it allows for similar invoices. It is possible to enter duplicate invoices within Lawson if there is a minimal differentiation in the invoice number (i.e. a dot, a dash, etc.) and Lawson does not identify the duplicate invoices prior to payment processing.

3. **Manual Invoice Processing:** The AP personnel manually receive, classify, and file the vendors’ invoices, check requests, expense reports, and supporting documentation, which increases the possibility of misplacing or losing paper, the time spent trying to file and find files, the risk of duplicating or overpaying invoices, or making late payments, delayed access to documents and approval time and increased cycle time for AP processes. These factors lead to errors and reduced employee productivity, therefore consideration should be given to evaluate the automation and/or improved control of these processes.

4. **User Rights and Access within AP Application Systems:** Excessive access rights within the Lawson financial system are granted to users within the AP and other PPH staff. Appropriate access and monitoring of system use should help ensure the required segregation of duties issues. Periodic reviews of users, access rights, and potential segregation of duties (SOD) should be performed and documented on a regular basis.

5. **ACL Analysis:** Results of data analysis identified the possible presence of duplicate invoices, late payments, overpayments, incorrect payments, vendor discounts not taken, and irregularities with the vendor master file.

6. **AP Transaction Test Work:** Continued monitoring should be performed to ensure consistent and appropriate processing of manual AP activities.

7. **Findings Concerning Other Areas / Departments:**
   a. An approval matrix, (schedule of payment approval limits/authorities) should be maintained and accessible to all process-owners.
b. A vendor certifications program should be considered maintain a consistent and effective process of selecting qualified vendors/contractors.

c. A methodology should be developed to ensure that adequate documentation supporting Purchase Orders, and related transactions.

8. Program Changes and modifications to Lawson: Procedures and guidelines do exist which define the required process for Lawson system changes, however, more attention should be spent to ensure that these guidelines are followed on a consistent basis.

It is strongly recommended that corrective action to be taken to address these issues. More detail on these opportunities for improvement follows this section and includes management’s action plans that were developed by the Director of Finance and the Supervisor of AP. These matters are offered for management’s consideration in the spirit of continuously improving quality within Palomar Pomerado Health.

Approved:

[Signature]

Thomas Boyle, District Audit Officer

XC: Palomar Pomerado Health Board Audit Committee
Michael Covert, CEO, PPH
Robert Hemker, CFO, PPH
Palomar Pomerado Health
Internal Audit Activities

Report to
The Audit and Compliance Committee
January 20, 2011
# PPH Internal Audit Plan 2010

<table>
<thead>
<tr>
<th>Description</th>
<th>Scope/Objectives</th>
<th>Impact</th>
<th>Resource</th>
<th>Status</th>
<th>Owner</th>
</tr>
</thead>
</table>
| 1 Review of PMC West construction activities | • Proceed with assessment of operational controls and audit of claims from payments to DPR, various subcontractors and affiliated vendors.  
• Initiate PPH construction audits for review of operational processes and trade contractors as planned.  
• Create a second audit staff construction auditor position to achieve audit plan. | High | High/External | In process | Coordinate |
| 2 Compliance 360 contract mgmt | • Phase 1. Focus on physicians for Stark compliance  
• Phase 2. Expand scope to other payments/contracts | Medium | Low | In process | Coordinate |
<p>| 3 Audit of zero-balance managed care accounts | Perform ongoing review of zero-balance accounts to determine if appropriate payments have been received from managed care plans, essentially eliminating the need to use an external third-party (Triage) for monitoring and identifying lost revenue. | Medium | Medium | Planning | Coordinate |
| 4 Develop Continuous Monitoring system for General Ledger controls | Evaluate internal controls related to the routine maintenance of the General Ledger and develop a “user-owned” monitoring system to more effectively identify anomalies and trends which can improve the timeliness and accuracy of oversight, reducing year-end adjustments and scope of external auditor’s work. | Medium | Medium | Planning | |
| 5 Develop Continuous Monitoring system for Accounts Payable | Evaluate internal controls related to the routine operations related to payroll processing and develop a “user-owned” monitoring system to more effectively identify anomalies and trends which can reduce time spent and increase consistency with oversight. | Medium | Medium | Planning | |
| 6 Pharmacy Review | Engage and external specialist to evaluate operations with compliance implications and the potential for cost savings to include: formulary management, charge capture, administration charges, rebates, EPO | High | External | Planning | |
| 7 CDI – Impact analysis (Clinical Documentation Improvement) | Evaluate the financial and operational impact of the Clinical Documentation Improvement initiative from start to current state as compared to projected expectations. | Medium | High | Coordinate | |</p>
<table>
<thead>
<tr>
<th>Description</th>
<th>Scope/Objectives</th>
<th>Impact</th>
<th>Resource</th>
<th>Status</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 CDI – Impact analysis (Clinical Documentation Improvement)</td>
<td>Evaluate the financial and operational impact of the Clinical Documentation Improvement initiative from start to current state as compared to projected expectations.</td>
<td>Medium</td>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 Audit Quality Assessment</td>
<td>Engage an independent entity to undergo a formal Quality Assessment of the Internal Audit function at PPH.</td>
<td>Low</td>
<td>External</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 Implementation of Automated Controls related to major IT system applications</td>
<td>Work with IT in implementing automated system controls for relevant applications to improve our system of internal controls and improve the timeliness for the identification of anomalies. At the suggestion of our external audit firm Deloitte &amp; Touche, implement the effective utilization of automated system controls to improve effectiveness and also reduce audit work during every year-end audit.</td>
<td>Medium</td>
<td>Medium</td>
<td>Coordinate</td>
<td></td>
</tr>
<tr>
<td>11 Information System Security review Phase 3</td>
<td>Continue with the IT Security audit which began several years ago and was postponed due to audit staff reduction. Scope to include transformation to off-site Cerner operations, and controls over system upgrades and recent regulatory changes.</td>
<td>Medium</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Develop Continuous Monitoring system for Payroll monitoring</td>
<td>Evaluate internal controls related to the routine operations related to payroll processing and develop a “user-owned” monitoring system to more effectively identify anomalies and trends which can reduce time spent and increase consistency with oversight.</td>
<td>Medium</td>
<td>Medium</td>
<td>Coordinate</td>
<td></td>
</tr>
<tr>
<td>13 CPM – Marketing report assessment</td>
<td>Evaluate the data collection and reporting methodologies related to the CPI reports to ensure the reliability and timeliness of information regarding marketing efforts and corresponding volumes in business.</td>
<td>Low</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Perform Annual Audit Risk Assessment</td>
<td>Conduct an Audit Risk Assessment to support the Enterprise Risk Assessment concept, contributing to data reporting on internal and external risks, as well as providing support for continued audit planning.</td>
<td>Low</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 CDM Review</td>
<td>Facilitate an external review of the CDM/Charge Services system to determine the appropriateness, validity and completeness of data within the system, as well as the effectiveness and timeliness of managing our charge system on an ongoing basis.</td>
<td>High</td>
<td>External</td>
<td>Coordinate</td>
<td></td>
</tr>
<tr>
<td>16 EMT Expense Reimbursement</td>
<td>A review of Executive travel and other personal reimbursements are performed annually on 100% of expenditures for the fiscal year.</td>
<td>Low</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Contingency Project (s)</td>
<td>Traditionally Internal Audit time and resources are anticipated for emergent needs in response to unexpected situations related to fraud, compliance, theft or other issues.</td>
<td>High</td>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 Independent Community Oversight Committee - ICOC</td>
<td>Performed an independent certification to ensure that bond funds were appropriately used according to the requirements of each bond issue.</td>
<td>Low</td>
<td>Medium</td>
<td>Complete</td>
<td></td>
</tr>
</tbody>
</table>
Audit Projects as of December 31, 2010

Unscheduled projects performed during the year are not represented.
To include, Stark, Arch, External Audit Assistance, Internal Consultants and more.
Project: #1 Review of PMC West Construction Activities

Report Date: 01/12/2011

Project assigned to: Tom Boyle and Robert Schirripa

Business Process Owner: Construction Team

Project Objectives:
- Develop a risk-based audit plan and review activities related to the expansion project expenses.

Potential Risks:
- Non-performance of construction-related auditing may result in overpaying for services and/or supplies.
- Non-compliance with contractual terms which may have financial/legal consequences.

Status: In process as planned.

Milestones:
1. Evaluate PPH controls related to timely/effective approval and reconciliation of discrepancies
2. Create an audit staff construction auditor position to reduce external audit fees.
3. Assess operational controls and audit of claims from payments to DPR, various subcontractors and affiliated vendors.
5. Quarterly report of Construction Audit Activities.
7. ICOC Certification Completed

Issues Identified:
1. Resolved litigation with R&S for overpayments
2. Significant financial recoveries have resulted from audit activities on a consistent basis.
3. Quarterly reconsolidation of two construction companies.
4. Auditing other individual trades.
Project: #2 Compliance 360 Contract Management

Report Date: 01/12/2011

Project assigned to: Lucy Maxwell and Ruhina Mukadam

Business Process Owner: Kate Butler and Roberta Brenton

Project Objectives:

- To continue with the review of payments to physicians to determine if appropriate contracts are in place and managed via Compliance 360;
- To expand scope to include other payments to determine if contracts are in place and properly managed for contractors, vendors and others.

Potential Risks May Include:

- Controls surrounding the contracts process are not in place to ensure that valid contracts exist for all related payments and vice versa;
- Contracts and payments for physicians, vendors and contractors may not include complete and valid documentation to support them.

Issues Identified:

- All PPH contracts are not entered into Compliance 360;
- Payments made after contracts expired.
- Same ID numbers associated with different vendors.
Project: #3 Zero-Balance Managed Care Accounts

Project Objectives:
- To perform ongoing review of zero-balance accounts to determine if appropriate payments have been received from managed care plans, essentially eliminating the need to use an external third-party (Triage) for monitoring and identifying lost revenue.

Status: A solution has been implemented with Managed Care, and performing as intended.

Milestones:
1. Development complete
2. Automation complete
Project: #4 Continuous Monitoring for General Ledger

Report Date: 01/12/2011

Project assigned to: Lucy Maxwell and Steve Barrett

Business Process Owner: Stephanie Love

Project Objectives:

- To evaluate internal controls related to the routine maintenance of the General Ledger ("GL");
- To develop a “user owned” monitoring system to more effectively identify anomalies and trends which can improve the timeliness and accuracy of oversight, reducing year-end adjustments and scope of external auditor’s work.

Potential Risks:

- Internal controls surrounding the GL process are not in place and operating as designed;
- Unauthorized users have access to add an account number to the GL;
- All existing accounts have been included on the financial statements;
- Transactions are not posted in the proper period, are not captured completely, accurately and on a timely basis;
- The GL process is not efficient and effective.

Status: To be incorporated into next audit program.

Milestones:

1. Conduct planning meeting, establish scope, timing, contact people and information requests;
2. Evaluate internal controls related to the routine maintenance of the General Ledger ("GL");
3. Select sample and perform testing of identified controls;
4. Complete audit documentation;
5. Report findings to users and management;
6. Develop a “user owned” monitoring system to more effectively identify anomalies and trends which can improve the timeliness and accuracy of oversight, reducing year-end adjustments and scope of external auditor’s work.
Project: #5 Continuous Monitoring for Accounts Payable

**Report Date:** 01/12/2011

**Project assigned to:** Lucy Maxwell and Steve Barrett

**Business Process Owner:** Stephanie Love

**Project Objectives:**
- To evaluate internal controls related to the routine operations regarding the Accounts Payable processing;
- To develop a “user owned” monitoring system to more effectively identify anomalies and trends which can reduce time spent and increase consistency with oversight.

**Potential Risks:**
- Internal controls surrounding the accounts payable process are not in place and operating as designed;
- Accounts payable transactions don’t include complete and accurate documentation to support all payments;
- Payments are not captured completely, accurately and on a timely basis;
- The accounts payable process is not efficient and effective.

**Status:** Audit Report has been delivered to Management.
Remainder response is due from Supply Chain Services.

**Milestones:**
1. Conduct audit planning meeting to define resources available and timing of the audit;
2. Plan audit program, define scope and objectives and information to be requested;
3. Perform interviews, obtain understanding of IT automated controls, evaluate internal controls and identify risks;
4. Collect audit sample and perform testing of identified controls;
5. Complete audit documentation. Complete audit report and deliver findings to users and management;
6. Develop a “user owned” monitoring system to more effectively identify anomalies and trends.

**Issues Identified:**
Additional findings will be reported separately, following receipt of management response.
Project: #6 Pharmacy Review

Report Date: 01/12/2011
Project assigned to: Tom Boyle
Business Process Owner: External Vendor

Project Objectives:
- To engage an external specialist to evaluate operations with compliance implications and the potential for cost savings to include: formulary management, charge capture, administration charges, rebates, EPO.

Project Status: Pharmacy management is currently taking appropriate action to address recommendations made as a result of the audit.

Milestones:
1. Identify a qualified 3rd specialist and negotiate a contract to perform a comprehensive review of pharmacy operations;
2. Data requests received and completed for review;
3. Entrance meetings to begin with various internal parties;
4. Preliminary results reviewed with internal parties;
5. Draft report presented to PPH Audit Department;
6. Final report presented to PPH Pharmacy and Executive team.
Project: #7 CDI – Impact Analysis (Clinical Documentation Improvement)

Report Date: 01/12/2011

Project assigned to: Tom Boyle and Lucy Maxwell

Business Process Owner: Tim and Opal

Project Objectives:
- To evaluate the financial and operational impact of the Clinical Documentation Improvement initiative from start to current state as compared to projected expectations.

Status: To be incorporated into next audit program.

📍 Milestones:
1. Conduct audit planning meeting to define resources available and timing of the audit;
2. Plan audit program, define scope and objectives and information to be requested;
3. Perform interviews, obtain understanding of processes, evaluate internal controls and identify risks;
4. Complete audit report and deliver findings to users and management.
Project: #8 Audit Quality Assessment

Report Date: 01/12/2011
Project assigned to: Tom Boyle and Lucy Maxwell
Business Process Owner: External vendor

Project Objectives:
- To engage an independent entity to undergo a formal Quality Assessment of the Internal Audit function at PPH.

Potential Risks:
- Lack of compliance with IIA Standards, which state that every IAS department shall perform a Quality Assessment review once every 5 years. PPH IAS celebrates its 5th Anniversary in 2010.

Status: External assessment rescheduled for 2011 calendar year; an internal Quality Assessment will be performed prior to the external review.

Milestones:
1. Create, develop and adopt a Self-Assessment Quality Assurance Audit check list/program;
2. Conduct audit planning meeting to define resources available and timing for the review;
3. Perform Self-Assessment Quality Assurance review;
4. Review check list, audit documentation, and evaluate IAS internal controls;
5. Obtain services from third party to review Internal Self-Assessment;
6. Presentation of audit report, findings and recommendations to Internal Audit/Compliance Committee.
Project: #9 Automated Controls for IT System Applications

Report Date: 01/12/2011
Project assigned to: Lucy Maxwell
Business Process Owner: Prudence Henderson

Project Objectives:

- To work with IT in implementing automated system controls for relevant applications to improve our system of internal controls and improve the timeliness for the identification of anomalies. At the suggestion of our external audit firm Deloitte & Touche, implement the effective utilization of automated system controls to improve effectiveness and also reduce audit work during every year-end audit.

Potential Risks:

- The system application may be inefficient or ineffective because manual controls are needed to compensate for inadequate built-in controls;
- Inaccurate and/or corrupted data may lead to erroneous management decisions;
- The lack of written procedures could result in a failure to comply with corporate policies, procedures and guidelines, as well as, regulatory agency requirements;
- System applications may not be adequately protected from unauthorized access due to ineffective security procedures;
- User information may be lost, manipulated or stolen.

Status: In Progress.

Milestones:

1. Conduct audit planning meeting to define resources available and timing of the audit;
2. Plan audit program, define scope and objectives and information to be requested;
3. Perform interviews, obtain understanding of IT automated controls, evaluate internal controls and identify risks;
4. Collect audit sample and perform testing of identified controls;
5. Complete audit report and deliver findings to users and management.
Project: #10 IS Security Review – Phase 3

Report Date: 01/12/2011

Project assigned to: Lucy Maxwell

Business Process Owner: Luba Halich and Kim Jackson

Project Objectives:
- To continue with the IS Security audit which began several years ago and was postponed due to audit staff reduction. Scope to include transformation to off-site Cerner operations, and controls over system upgrades and recent regulatory changes.

Potential Risks:
- Unauthorized personnel have access to PPH’s systems and information;
- All new system acquisition/development/changes are requested, completed, tested, and migrated to the production environment by unauthorized personnel;
- Controls surrounding the Information Technology infrastructure are not in place and operating as designed;
- Information Technology activities do not include complete and accurate documentation to support all end user requisitions.

Status: To be continued in 2011 audit program.

Milestones:
1. Conduct audit planning meeting to define resources available and timing of the audit;
2. Plan audit program, define scope and objectives and information to be requested;
3. Perform interviews, obtain understanding of IS processes, evaluate internal controls related to IS and identify risks;
4. Collect audit sample and perform testing of identified controls;
5. Complete audit documentation;
6. Complete audit report and deliver findings to users and management.
Project: #11 Continuous Monitoring for Payroll

Report Date: 01/12/2011

Project assigned to: Lucy Maxwell and Steve Barrett

Business Process Owner: Stephanie Love

Project Objectives:

- To evaluate internal controls related to the routine operations related to payroll processing;
- To develop a “user-owned” monitoring system to more effectively identify anomalies and trends which can reduce time spent and increase consistency with oversight.

Potential Risks:

- Internal controls surrounding the payroll process are not in place and operating effectively;
- The payroll process is not efficient and effective.

Status: To be incorporated into next audit program.

Milestones:

1. Planning of the audit, including defining scope, objectives and audit program;
2. Conduct entrance meeting, define resources, timing and information to be requested;
3. Obtain understanding of the process, evaluate internal controls related to the routine maintenance of the Payroll and identify risks;
4. Select sample and perform testing;
5. Complete audit documentation;
6. Complete audit report and deliver findings to users and management;
7. Develop a “user owned” monitoring system to more effectively identify anomalies and trends which can improve the timeliness and accuracy of oversight, reducing year-end adjustments and scope of external auditor’s work.
Project: #12 CPM Marketing Report Assessment

Report Date: 01/12/2011
Project assigned to: Lucy Maxwell
Business Process Owner: Marketing Department
Project Objectives:

- To evaluate the data collection and reporting methodologies related to the CPI reports to ensure the reliability and timeliness of information regarding marketing efforts and corresponding volumes in business.

Status: To be incorporated into next audit program.

Milestones:

1. Planning of the audit, including defining scope, objectives and audit program;
2. Conduct entrance meeting, define resources, timing and information to be requested;
3. Obtain understanding of the process, evaluate internal controls and identify risks;
4. Complete audit documentation;
5. Complete audit report and deliver findings to the auditee.
Project: #13 Annual Audit Risk Assessment

Report Date: 01/12/2011
Project assigned to: Tom Boyle and Lucy Maxwell
Business Process Owner: PPH Business Units and Depts.

Project Objectives:
- To conduct an Audit Risk Assessment to support the Enterprise Risk Assessment concept, contributing to data reporting on internal and external risks, as well as providing support for continued audit planning.

Milestones:
1. Send audit risk assessment survey to all PPH management and above;
2. Obtain results from risk assessment survey;
3. Compile risk assessment information and analyze it to identify areas of risk within PPH;
4. Plan audit program for 2011 based on the results obtained from the risk assessment performed.

Status: In Progress, to be completed in 30 days.
Report Date: 01/12/2011
Project assigned to: Tom Boyle
Business Process Owner: Lidiya and External Vendor
Project Objectives:
  - To facilitate an external review of the CDM/Charge Services system to determine the appropriateness, validity and completeness of data within the system, as well as the effectiveness and timeliness of managing our charge system on an ongoing basis.

Status: An internal revision/validation process has been ongoing by Coding staff during the past year. Scope of work and vendor selection has been tentatively determined and will be budgeted for 2011.
Project: #15 Executive Expense Reimbursement Audit

Report Date: 01/12/2011

Project assigned to: Tom Boyle

Business Process Owner: Tom Boyle, Robert Schirripa

Project Objectives:

- To examine all claims from, and reimbursements to members of the PPH Executive Management Team during the past fiscal year to determine compliance with applicable PPH procedures.

Potential Risks:

- In the event that improper reimbursements are made to executives, the District would risk negative public image and misuse of public funds.

Status: Complete

Milestones:

1. Performed and completed in September and October 2010.
Continuous Controls

Internal Audit Services has provided reports for process feedback control in support of the following departments:

- Case Management—these reports assist in compliance with Medicare regulations to reduce the risk of unfavorable RAC findings
  - Daily review of Medicare inpatients and observations
  - Weekly review of unfunded complex cases
  - Daily review of discharged Medicare patients as part of the Important Message (IM) procedure
Continuous Controls (cont.)

- Clinical Utilization
  - monthly trend review of numbers and charges of Lab and Rad tests for ICU patients in support of costs reduction

- Compliance
  - monthly review of excluded providers from OIG and GSA, will soon also include PECOS

- Finance—Accounts Payable
  - monthly report of possible duplicate invoices to eliminate/recoup duplicate payments
  - monthly report of missed price discounts
  - monthly report of significant price differences between purchase orders and invoices to assist in process improvement and reduce payments
  - monthly report of price differences between vendors in support of obtaining lower pricing
Continuous Controls (cont.)

- Managed Care
  - weekly report of contract performance to identify shifts in utilization which can be addressed when negotiating the future contracts

- Internal Audit
  - monthly review of the list of recipients of CCM reports which contain HIPAA sensitive information. This review checks to see if recipients have changed departments, positions, or left PPH so that their continued access to these reports can be adjusted appropriately
Provide Support for Process Improvement via Automation

Internal Audit Services has provided assistance in automating manual processes to free up limited resources for more important tasks.

- Patient Financial Services
  - Weekly generation of baseline PFS dashboard

- Performance Excellence
  - Daily update of PPH facilities census

- Finance
  - Monthly acquisition of last date of payment for unclaimed refunds

- Accounts Payable
  - Weekly generation of expenditures report for all departments
Construction Audit

Tom Boyle, District Audit Officer
Equipment: Costs charged relating to equipment. Example – truck rental

Expenses: Costs charged relating to general operating expenses. Examples include – materials, meals, training, recruitment, books, software and travel.

Contract Interpretation: How the contract was implemented based on the interpretation of the contract by the trade. Examples include - Actual cost, general conditions, and allowances.

Labor Related: Costs related to labor and benefits. Examples include - wages, overtime, fringe benefits, and burden.

Expenses Recovered: Amount recovered or credited to PPH and agreed upon by the trade as result of the audit process.

Expenses Challenged: Questionable issues/amount identified during the scope of the audit needing further justification.
PMC WEST CONSTRUCTION AUDIT
AUDIT RECOVERIES TO DATE
2007-2010

<table>
<thead>
<tr>
<th>Category</th>
<th>Recovered Amount</th>
<th>Recovered Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment Rental</td>
<td>$130,952</td>
<td>100%</td>
</tr>
<tr>
<td>Contract Interpretation</td>
<td>$889,327</td>
<td>100%</td>
</tr>
<tr>
<td>Expenses</td>
<td>$1,453,980</td>
<td>14%</td>
</tr>
<tr>
<td>Labor Related</td>
<td>$5,247,578</td>
<td>97%</td>
</tr>
</tbody>
</table>

EXPENSES RECOVERED
EXPENSES CHALLENGED

Graphs not to scale
## PMC WEST CONSTRUCTION AUDIT
### AUDIT RECOVERIES TO DATE
#### 2007-2010

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenses Recovered</th>
<th>Expenses Challenged</th>
<th>% Recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>$5,247,578</td>
<td>$5,382,166</td>
<td>97%</td>
</tr>
<tr>
<td>Expenses</td>
<td>$1,453,980</td>
<td>$10,200,174</td>
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<tr>
<td>Equipment</td>
<td>$130,952</td>
<td>$130,952</td>
<td>100%</td>
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<tr>
<td>Contract Interpretation</td>
<td>$889,327</td>
<td>$889,327</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,721,837</strong></td>
<td><strong>$16,602,619</strong></td>
<td><strong>47%</strong></td>
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</table>
PMC WEST CONSTRUCTION AUDIT
WORK PLAN 2011 TO 2012
2 Year Construction Audit Plan

- **Program Review**: Audit a process or operation. This may consist of a manual or automated process. E.g. Change order process.

- **Quarterly Audit**: A periodic audit of a trade contractor’s billing and payment activity as required by the trade Contractor’s contract.

- **Extended Audit**: A scheduled audit may require additional time to complete due to new information. Change in audit scope or discrepancies which require more time to resolve.

- **Construction Audit**: Audits of trade contractors’ billing payments and contractual obligations.

---

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<thead>
<tr>
<th>Month</th>
<th>2011</th>
<th>2012</th>
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<td>Jan</td>
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</tr>
<tr>
<td>Feb</td>
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<td>Mar</td>
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<tr>
<td>Dec</td>
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**Number of Contracts**
By Contract Cost

- Audited: 8%
- Scheduled: 58%
- Not Scheduled: 34%
By Number of Contracts

- 88% Not Scheduled
- 9% Scheduled
- 3% Completed
Audit & Compliance Committee
2011 Education Series

Audit Technique # 413

Converting Paper to Electronic Data
The Problem:

Information is sometimes only available in hard copy such as invoices in a PDF format, which limits the use of electronic data analysis (audit test work).
The Solution:

Utilize optical character recognition software to convert images to standardized text format and combine all converted (.txt) files in one electronic file.
Method One:

1. Capture the image data

<table>
<thead>
<tr>
<th>Greg Hartgraves</th>
<th>BRG - BERG HOSP</th>
<th>NET 60 DAYS</th>
<th>03/25/09</th>
<th>03/25/09</th>
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</table>
Method One:

2. Convert image to bitmap
Method One: 3. Convert bitmap to text
**Method One:**

4. Add text to spreadsheet

![Spreadsheet Image](image-url)
Method One:
5. Validate Conversion
Method Two:

1. Access the PDF File with ACL
Method Two:

2. ACL Converts PDF to Data File
The Result . . .

A data from a file-drawer full of paper invoices is now in a single data file, where audit analytics can easily be performed; with more confidence, in less time and with reduced chance of human error.