# Palomar Pomerado Health
## Audit and Compliance
### Board Committee
#### Agenda

**PPH Grand Office Bldg**
**Thursday, April 21, 2011**
**5:15 – 7:15 P.M.**

**Conference Room — 1st floor**

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### Call to Order
- Public Comments

<table>
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<tr>
<th>Item</th>
<th>Presenter</th>
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</thead>
<tbody>
<tr>
<td>1. Meeting Minutes – March 17, 2011*</td>
<td>N. Bassett</td>
<td>2-6</td>
<td>5</td>
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<tr>
<td>2. Compliance and Ethics Committee Report (2 months)</td>
<td>B. Hemker</td>
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<td>3. Compliance Hotline Activity Report</td>
<td>M. Knutson</td>
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<td>15</td>
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<td>4. Compliance &amp; Ethics Committee Charter*</td>
<td>M. Knutson</td>
<td>9-10</td>
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<td>5. Compliance &amp; Ethics Training Plan</td>
<td>M. Knutson</td>
<td>11-14</td>
<td>15</td>
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<td>6. Education Focus: Measuring Effectiveness</td>
<td>M. Knutson</td>
<td>15-33</td>
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<td>7. External Review Recommendation</td>
<td>M. Knutson</td>
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<td>8. Audit &amp; Compliance Committee Charter*</td>
<td>N. Bassett</td>
<td>34-38</td>
<td>20</td>
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<td>9. Date/Time/Location of Next Meeting – May 19, 2011*</td>
<td>N. Bassett</td>
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<td>10. Adjournment</td>
<td>N. Bassett</td>
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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., Director (Alternate)  
Tom Boyle, District Audit Officer  
Marty Knutson, Corporate Compliance Officer  
Pernell Jones, Admin Fellow

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*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".
### Call to Order

5:15 P.M. by Director Kleiter

Present: Directors Greer and Krider

*Also attending:* Michael Covert, Bob Hemker, Tom Boyle, Marty Knutson, Janine Sarti, John Lilley, M.D., Lachlan Macleay, M.D., Robert Schirripa, Lucy Maxwell, Ruhina Livingstone, Lisa Biggs (Deloitte), Shibani Dogra (Deloitte), Mark Kawauchi (Deloitte), and Lanissa Weddington

### 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

- **February 17, 2011**

  **MOTION:** by Director Krider, **2nd by Director Kleiter** and carried to approve the minutes of February 17, 2011 as submitted.

  All in favor. None opposed.

### Review External Audit Engagement - Deloitte

Mr. Kawauchi of Deloitte presented Deloitte's audit approach, engagement leadership team and audit timing.

The scope of the audit is to obtain reasonable assurance about whether the consolidated financial statements are
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<th>AGENDA ITEM/ PRESENTER</th>
<th>DISCUSSION</th>
<th>CONCLUSIONS/ACTION</th>
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<td>free of material misstatement, whether caused by error or fraud. Deloitte has a new audit approach that supports a risk-based audit plan with a focus on understanding PPH’s business and identifying risks associated with the consolidated financial statements. The audit approach is applied through the application of six steps:  - Perform pre-engagement activities  - Perform preliminary planning  - Develop the audit plan  - Perform the audit plan  - Conclude and report  - Perform post engagement activities  The estimated fees for the engagement will be $306,000, based upon an estimated budget of 1,643 hours at an estimated blended hourly rate of $186, plus expenses. Mr. Kawauchi stated that companies are not required to change audit firms, however, it is Deloitte’s practice to rotate a the engagement partner every seven years including a five-year time-out before the partner can return to the engagement. He also said that typical reasons to change audit firms is because of professional standards or performance issues.</td>
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<td>INTERNAL AUDITING &amp; CCM – COMMITTEE EDUCATION</td>
<td>Mr. Boyle provided the committee with an educational session on internal auditing and continuous monitoring. The session reviewed and defined audit terms and a basic breakdown of audits. Continuous auditing is a method used to automatically</td>
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<td>perform control and risk assessments on a more frequent basis.</td>
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<td>Continuous monitoring is a growing trend where key business processes are reviewed for effectiveness and compliance on a regular and timely basis. It allows management to monitor their own controls in their responsibility to meet organizational objectives.</td>
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<td>The auditor's role in continuous monitoring is to validate continuous monitoring test, control of the continuous auditing process, provide security to access and change to the system.</td>
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<td>The benefits of audit automation is:</td>
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<td>- Timely discovery of fraud, waste, and abuse</td>
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<td>- Identification of control deficiencies</td>
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<td>- Examination of consistency of processes</td>
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<td>- Expanded audit coverage</td>
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<td>- Increased confidence in financial results</td>
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<td>Currently the departments that the Internal Audit Department performs continuous controls monitoring for:</td>
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<td>- Case Management</td>
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<td>- Clinical Utilization</td>
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| **2011 AUDIT PLAN**    | Mr. Boyle spoke about the PPH Internal Audit plan for 2011 and highlighted the scopes and objectives of projects. The internal audit process consists of the following steps:  
- Risk Assessment  
- Develop Audit Plan  
- Perform Audit  
- Receive Response to Findings  
- Report Results with Response to Management  
- Report Executive Summary to Audit and Compliance Board Committee  
- Perform follow-up to recommendations  
Mr. Boyle also highlighted on the types of audits performed within the Internal Audit Department and the limited staffing resources. | |
| **EXTERNAL AUDIT ENGAGEMENT** | The committee discussed several factors concerning the appropriateness for PPH to change audit firms.  
Some of the factors discussed were:  
- Timing of the completion of the construction project of PMC West  
- Concern of auditor of becoming too familiar with management and staff of organization  
- Single year financial audit – no comparative  
- PPH does not have a policy to change audit firms at a specific time.  
After a thorough review of a memorandum written by Mr. Hemker and Mr. Boyle detailing additional factors it was concluded that transitioning to a new external auditor during FY11, FY12 and FY13 was not in the best interest of PPH. | **MOTION**: by Director Krider, 2nd by Director Greer to recommend to the Board the approval of a three year engagement of Deloitte as the external auditor for FY11, FY12 and FY13 contingent Mr. Hemker could negotiate a fixed fee.  
All in favor. None opposed. |
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<tr>
<td>DATE/TIME &amp; LOCATION OF NEXT MEETING</td>
<td>The next meeting of the Audit and Compliance Board Committee is scheduled to be held on Thursday, April 21, 2011 at 5:15 p.m. in the 456 E. Grand Conference Room.</td>
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<td>SIGNATURES</td>
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<td>▪ Committee Chairperson</td>
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<td>[Ted Kleiter]</td>
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<td>▪ Secretary to Committee</td>
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<td>[Lanissa Weddington]</td>
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</table>
MARCH

- **Education Focus:** The committee reviewed and discussed Stark exceptions applicable to gifts to referral sources.

- **Compliance & Ethics Plan Follow-up** - The committee discussed and reviewed topics that were present in the retired “Compliance Program” to ensure items are addressed elsewhere.

- **Work Plan Updates** – Committee members reported on their projects. The updates included, Conflict of Interest, Data Security, Medicare Regulations and Sepsis. Each project included plan objectives, milestones, and status.

- **Code of Conduct Progress** – The committee discussed the “What the Code Means to Me” contest. Entries can be in any media format. The first place winner or team will be treated to lunch by and with Michael Covert.

APRIL

- **Measuring Effectiveness** – The committee discussed industry practices, examples and measures on how to evaluate the effectiveness of a compliance and ethics program. The committee also discussed and identified areas of improvement for the Compliance and Ethics Committee.

- **Data Breach Risk Assessment** – A proposal was brought to the committee by Kim Jackson to support a district wide data breach risk assessment. The assessment will conduct a through evaluation of potential risks and vulnerabilities to the confidentiality, integrity, and availability of electronic protected health information.

- **Compliance & Ethics Training Plan** – The committee reviewed the Compliance and Ethics training plan. The plan consists of three types of training; general compliance training, risk specific training and focused training for leadership. The education plan targets employees, leaders, medical staff and the Board of Directors.
Compliance and Ethics Committee
Hotline Report
FY - 2011

Allegation Types

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Web Page Views

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Palomar Pomerado Health
Compliance and Ethics Committee Charter

The Compliance and Ethics Committee is appointed to assist the Corporate Compliance Officer (“CCO”), President and CEO, and the Audit and Compliance Committee of the Board of Directors in fulfilling their oversight responsibilities with regard to compliance and ethics throughout Palomar Pomerado Health (“PPH”), including its subsidiary and side by side corporations and the PPH Foundation.

RESPONSIBILITIES

The committee is responsible for:

- Ensuring District-wide compliance with relevant local, state and federal laws and promoting an organizational culture that encourages ethical conduct and a commitment to compliance with the law
- Reviewing and approving compliance related procedures.
- Recommending to the Audit and Compliance Committee of the Board potential changes to Board policies and this charter.
- Analyzing PPH efforts to address Compliance and Ethics risk areas and prioritizing efforts to address deficiencies.
- Reviewing reports on concerns, risks and trends, particularly those developed through audits, hotline reports, and investigations.
- Reviewing actions taken in follow-up to mandated deficiency reporting to State and Federal agencies as well as investigations and citations by such agencies, if any.
- Examining the PPH system of internal controls over compliance related functions to ensure that they are current with changing laws, regulation and practice.
- Receiving and reviewing reports of the monitoring of such internal controls and associated corrective action plans.
- Encouraging employees, contractors, volunteers and members of the medical staff towards compliance, ethical behavior and adherence with laws, regulations, policies, practices, and procedures.
- Maintaining awareness of the compliance activities of PPH in all parts of the District.
- Providing a forum for communication of issues relevant to compliance and ethics among the various units and departments within PPH.
- Reporting its activities to the President / CEO and the Audit and Compliance Committee of the Board.
- Performing other activities deemed appropriate by the President/CEO, the Board of Directors and/or its Compliance and Audit Committee.

COMPOSITION

The Compliance and Ethics Committee shall be comprised of at least the individuals in the following positions with PPH:
• Chief Financial Officer
• Chief Human Resources Officer
• Chief Nursing Officer or designee
• Chief Quality Officer
• Chief Senior Care Support Services Officer
• Corporate Compliance Officer
• Director, Home Health
• Director, Rehab Services
• Director, Lab and Radiology Services
• Director, Behavioral Health
• Executive Director, Arch Health Partners
• General Counsel
• Two medical staff representatives

Others may be asked to serve, from time to time, by the President / CEO and /or the Audit and Compliance Committee of the Board. In addition, the following will be ex officio members, without decision-making responsibility or authority, of the Compliance and Ethics Committee:

• District Audit Officer
• PPH Privacy Officer
• PPH Information Security Officer

QUALIFICATIONS

All members will possess or obtain by education and study working familiarity with principles of compliance and ethics. Their conduct will model best practices in these areas at all time. Formal and informal continuing education efforts in these areas are an expectation of committee membership.

MEETINGS

The committee shall meet at least six (6) times per calendar year. A majority of the regular members of the committee shall be a quorum.

______________________________  April 2011
Approved, President and CEO

______________________________  April 2011
Approved by Compliance and Audit Committee

______________________________  April 2011
Approved by Board of Directors
# Compliance and Ethics training plan - 2011 - 2012

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<th><strong>General Compliance Training</strong></th>
<th><strong>Content</strong></th>
<th><strong>Audience</strong></th>
<th><strong>Frequency</strong></th>
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<tbody>
<tr>
<td><strong>New Employee Orientation</strong></td>
<td>Code of Conduct; Speaking Up; <em>Handouts: Code: Speaking Up</em> flyer; in-person or video presentation by CCO. 1 question on post test.</td>
<td>New employees / contractors</td>
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<td><strong>New Leader Orientation</strong></td>
<td>“Your Role In Creating Compliance and Ethics at PPH”: Purpose of Ethics and Compliance efforts, typical activities, PPH continuous compliance readiness model; “Pre-work” of reading 2005 OIG Compliance Guidance. Exercise regarding encouragement of Speaking Up; No post test.</td>
<td>New leaders</td>
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<td><strong>Safety “Test”</strong></td>
<td>Sections on Information Security, Privacy Rules and Responsibilities. Also content on responsibilities to LEP patients and the deaf.</td>
<td>Current employees</td>
<td>1 x per year</td>
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<td><strong>Board Education Session</strong></td>
<td><em>Outside speaker – features of effective Compliance and Ethics efforts.</em></td>
<td>Board and EMT</td>
<td>Fall 2011</td>
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<td><strong>Annual Compliance Training</strong></td>
<td>Online module to be produced in house. Tied to annual focus topic: Code, Mission, Vision and Values, Ethical Decision-making model, Speaking Up behaviors, Role of the Hotline, tie to Patient Centric Culture; Clinical and non-clinical versions</td>
<td>All PPH employees and contractors including medical directors</td>
<td>1 x per year; Leaders and medical directors to complete in Fall 2011; non-leaders to complete as separate 1 hour module in January 2012 (during same period as “Safety Test”)</td>
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<td><strong>Risk Specific Training</strong></td>
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<td><strong>Harassment Prevention Training</strong></td>
<td>On-line module from CALBiz Central meeting requirements of AB 1825;</td>
<td>Supervisors and above</td>
<td>Biannual (even years)</td>
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<td><strong>Physician Privacy training</strong></td>
<td>On-line module focused on PPH practices; approved for CME credit</td>
<td>All PPH medical staff</td>
<td>Expected Roll-out April 2011 to PMC Medical Staff; POM only medical staff members in May.</td>
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<td><strong>Medicare Bootcamp</strong></td>
<td>5 day commercial course covering Medicare Hospital reimbursement fundamentals.</td>
<td>15 individuals from revenue cycle attended the HFMA sponsored course in March 2011; To be sponsored by PPH at Black Mountain in May 2011 (32 leaders)</td>
<td>Offered annually by HFMA in San Diego.</td>
</tr>
<tr>
<td><strong>Physician Contracting training</strong></td>
<td>In person two hour class; post test</td>
<td>Selected leaders involved in physician contracting</td>
<td>1 x so far (49 leaders); Ongoing with new leaders involved in contracting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Focused Training for Leaders</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance Training for Leaders #1</strong></td>
<td>Public Health District: What’s That? ” Legal Structure of PPH and what effects that has on how we do business; conflicts; gifts; public contracting</td>
<td>Supervisors and above, including Medical Directors</td>
</tr>
<tr>
<td><strong>Compliance Training for Leaders #2</strong></td>
<td>EMTALA : Beyond the ED, responsibilities when transferring between sites</td>
<td>Supervisors and above, including Medical Directors</td>
</tr>
</tbody>
</table>
Please # the following choices 1 – 6 (or 7) with # 1 being the course you’d most like to see offered, etc.

____________ HIPAA : the advanced course – Find out what has happened in Privacy, Security and Electronic Transactions since the federal Rules went into effect and review the Leader’s role in HIPAA compliance efforts.

____________ Conflicts of Interest – Learn how to identify conflicts in the workplace, how to resolve them, and the latest developments this area within healthcare.

____________ Building a “Speaking Up” Climate – Find out the why we want to encourage internal “whistle-blowing” and how to respond to reports of potential misconduct.

____________ “Public Health District” – what’s that? – Learn about the legal structure of PPH and what effects that has on how we can do business.

____________ Regulators: a permanent part of the landscape – Learn about the areas of authority, interests and investigations of the many Federal and State agencies that have jurisdiction over the Hospital.

____________ Submitting Claims to the Government - Learn about the responsibilities, starting with the first person who greets a patient, entailed by submitting claims to the Federal and State Governments.

____________ Something else?? (you have to say what) __________________________________

--------------------------------------------------------------------------------------------------------

How would you like to learn?

Xpand “on line” exercise
(Best way) 1 – 2 – 3 – 4 – 5 – 6 – 7- 8 – 9 – 10  (not so much)

In Person class
(Best way) 1 – 2 – 3 – 4 – 5 – 6 – 7- 8 – 9 – 10  (not so much)

Booklet / other stuff to read and take a test
(Best way) 1 – 2 – 3 – 4 – 5 – 6 – 7- 8 – 9 – 10  (not so much)

Some other method?

--------------------------------------------------------------------------------------------------------

Please hand, mail, or telepathically transport your completed form to Marty Knutson
RESULTS FROM LEARNING SURVEY*

Courses Most Liked to See Offered

- HIPAA: the advanced course
- Public Health District - what is that?
- Regulators: a permanent part of the landscape
- Submitting Claims to the Government
- Building a "Speaking Up" Climate
- Conflicts of Interest

Learning Methods
- Booklet
- Xpand
- In Person

*Results based on 53 respondents
Measuring “Effectiveness”

PPH Compliance and Ethics Committee
"The organization shall take reasonable steps - to evaluate periodically the effectiveness of the organization's compliance and ethics program."

FSG, Section 8B2.1.(b)(5)(B)
“Building and sustaining a successful compliance program rarely follows the same formula from organization to organization. However, such programs generally include: … regular self-assessment and enhancement of the existing compliance program.”

OIG, 2005 Supp. Guidance
"If you don't know where you are going, you will wind up somewhere else."

Yogi Berra
What to measure …

• Structures
• Process
• Outcomes
# Choices

<table>
<thead>
<tr>
<th>Structures (Design)</th>
<th>Capacity of the organization to prevent and detect violations of law based on the “Seven steps”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Processes (Implementation)</td>
<td>Manner in which the organization seeks to prevent and detect violations of law.</td>
</tr>
<tr>
<td>Outcomes (Impact)</td>
<td>Observable, measurable indications of preventing and detecting violations of law and creating an ethical culture.</td>
</tr>
</tbody>
</table>
Structure Examples

Compliance Officer (responsibilities, reports to)
Compliance Office (staff, budget)
Compliance Committee (who’s there)
Code of Conduct (various features)
Hotline (inhouse / outsourced)
Policies / procedures (topics)
Training (topics, who is trained)
Monitoring (what, by who)
DOD UBO ANNUAL REVIEW OF COMPLIANCE PROGRAM EFFECTIVENESS CHECKLIST

[NAME OF MTF]

The UBO Compliance Officer will regularly review the implementation and execution of the compliance program elements. This review will be conducted at least annually and will include an assessment of each of the basic elements individually, as well as the overall success of the program. It will help identify any weaknesses in your compliance program and implement appropriate changes. A copy of this review should be provided to the Base Commander and UBO Service Manager.

References:
OIG Compliance Guidance for Hospitals, February 1998
OIG Supplemental Compliance Program Guidance for Hospitals, January 2005

<table>
<thead>
<tr>
<th>No.</th>
<th>Element 1 – Development of UBO Compliance Policies and Procedures, Including Standards of Conduct</th>
<th>Yes</th>
<th>No</th>
<th>Other Assessment/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Are policies, procedures, and reference materials relevant to day-to-day responsibilities readily available to those who need them?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Does the UBO monitor staff compliance with internal policies and procedures?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Have the standards of conduct been distributed to all UBO staff members?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Has the UBO developed a risk assessment or audit tool to assess and identify weaknesses and risks in their operations?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No.</th>
<th>Element 2 - Designation of a UBO Compliance Officer &amp; Compliance Committee</th>
<th>Yes</th>
<th>No</th>
<th>Other Assessment/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is the designated UBO Compliance Officer a high-level official in the MTF?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Does the UBO compliance officer have direct access to all senior management and the Legal Office?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Process Examples

CO reports to Board (#, topics, frequency)
- # of investigations, questions, etc. handled by Compliance staff

Attendance at Compliance Committee
- # people signed off on the Code
- # of calls to the Hotline
  - “hits” on procedures

People completing training - #
- # of monitors in place
Outcome Examples

Board knows what’s being done and why Corrective and proactive actions are taken
Committee oversees and leads People reference the Code of Conduct in decision-making
Hotline is understood and supported Training and monitoring influence behavior
Measures suggested by others ...

- % Provider initiated claim adjustments
- % Fiscal Intermediary initiated claim adjustments
- % Claims rejected
- % Claims denied
- % Claims denied, appealed and overturned on appeal
HPMP (March 2006)

- Three day qualifying skilled nursing facility admission
- Medically unnecessary admissions;
- Inappropriate use of outpatient observation or failure to use when appropriate;
- Admissions for socioeconomic reasons;
- Short stay admissions;
- Readmissions due to incomplete care or premature discharge;
- Inappropriate transfers; and
- Duplicative billing of admissions or other billing errors.
- Long-term care hospitals co-located in acute care hospitals
Awareness: Five Questions

• Does your organization have a compliance officer?
• Do you know who the compliance officer is?
• Do you know how to contact the compliance officer?
• Are you obligated by your organization to report improper or unethical conduct?
• Can you provide an example of improper conduct that you would be required to report?

Steve Ortquist, Meade, Roach
I understand the reasons for establishing a Compliance Program at Fletcher Allen Health Care. I feel that my management team supports the goals and objectives of the Compliance Program. I am aware of the policies and procedures that govern my job. In the event that a compliance concern comes to my attention, I feel confident that I would report it to a manager/director or the Compliance Program, or other appropriate area. The implementation of the Compliance Program has affected the way I perform my day-to-day responsibilities. I believe Fletcher Allen is an ethical organization and is committed to complying with the laws, rules and regulations that govern its operations.
Ethics Resource Center

Tests whether employee:

(1) is willing to seek advice about ethics questions that arise,

(2) feels prepared to handle situations that could lead to misconduct,

(3) believes ethical behavior will be rewarded while success obtained through questionable means will not, and

(4) has positive feelings about the company.
ERC also measures

- **Ethical leadership**: tone at the top and belief that leaders can be trusted to do the right thing.

- **Supervisor reinforcement**: individuals directly above the employee in the company hierarchy set a good example and encourage ethical behavior.

- **Peer commitment to ethics**: ethical actions of peers support employees who "do the right thing."

- **Embedded ethical values**: values promoted through information communications channels are complementary and consistent with a company's official values.
Deloitte

- Do rank-and-file employees understand the tone set by senior management?
- Do you know, without a doubt, that your Organization’s culture encourages ethical behavior at all levels?
- Can employees throughout your organization describe the company’s code of ethics?
- Do employees in all areas of your organization ask questions and express concerns?
- Do your employees believe that the mechanisms are in place to allow them to voice opinions without fear of retribution?
Parting thoughts

• Roy Snell (HCCA): What is the biggest problem you see with regard to the Board's involvement in the oversight of compliance programs?

• Jim Sheehan (NY Medicaid Inspector General): In my opinion, it is board members who fail to ask the tough questions of management, do not require and review compliance metrics, and do not require compliance education for the board itself and for senior managers.
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 board members. The Board Chairman will appoint Committee members and the Chair of the Committee. 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.

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. **Recommend appointment of the external auditors, and forward to the full Board for approval**, 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, the Corporate Compliance Officer and General Counsel.
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 out 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. Receive periodic reports on the audit plan and the compliance plan’s current policies and procedures, any changes to the compliance plan, the reasons behind the changes, and make recommendations to the Board.
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.
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, General Counsel and the 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.

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

18. Direct special investigations for the Board.

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

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

21. 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.

22. 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.

23. 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.
24. 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.

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

26. 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.

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

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

29. The following are the sole responsibility of the Board Members of the Committee

   a. 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, District Audit Officer and General Counsel to discuss responsibilities of PPH’s internal audit and compliance functions and any issues the Corporate Compliance Officer, General Counsel and the District Audit Officer believe warrant Committee attention.

   b. Discuss with the Corporate Compliance Officer, General Counsel and the District Audit Officer any significant material reports to Administration prepared by the Corporate Compliance Officer, General Counsel and the District Audit Officer and any responses from Administration.

   c. The performance appraisals for those positions will be prepared by the CEO and provided to the Board Members of the Committee for discussion and input. The CEO and the Committee Chair will meet to discuss the performance appraisal. The Board Members of the Committee will receive a copy of the employee’s written response to the performance appraisal. The Board Members of 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 Board Members of the Committee or the Full Board pertaining to issues. 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.

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 of
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.