## Notice of Meeting

Notice of meeting schedule was posted Thursday, July 21, 2022. The agenda packet was posted on the Palomar Health website on Thursday, July 21, 2022.

## Call to Order

The meeting was held virtually pursuant to Board Resolution No. 01.10.22(03)-03 via GoToMeeting and called to order at 4:00 p.m. by Committee Chair Linda Greer.

## I. Establishment of Quorum

- Quorum comprised of Chair Linda Greer, Director Laurie Edwards-Tate, and Director Michael Pacheco
- Absent: None

## II. Public Comments

There were no public comments

## III. Follow Up Items

There were no follow up items

## IV. Agenda Item(s) for Review

1. Approve Tuesday, April 19, 2022 Board Audit and Compliance Committee Meeting Minutes
## Agenda Item

<table>
<thead>
<tr>
<th>Agenda Item</th>
<th>Conclusion/Action</th>
<th>Follow Up/Responsible Party</th>
<th>Final?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discussion</strong></td>
<td><strong>MOTION</strong> by Director Edwards-Tate, 2nd by Director Pacheco to approve the April 19, 2022 Board Audit and Compliance Committee Meeting Minutes. Roll call voting was utilized. Director Edwards-Tate - Aye Director Pacheco - Abstain Chair Greer - Aye Approved Two in favor. One abstain.</td>
<td>None</td>
<td>Y</td>
</tr>
<tr>
<td><strong>Discussion</strong>: None</td>
<td>None</td>
<td>None</td>
<td>Y</td>
</tr>
<tr>
<td>2. Board Conflict of Interest (Form 700)</td>
<td><strong>MOTION</strong>: None required, Information only.</td>
<td>None</td>
<td>Y</td>
</tr>
<tr>
<td><strong>Discussion</strong>: Ms. Helen Waishkey, Corporate Compliance Officer, stated that all Board members completed the Form 700 and there were no issues during the form review.</td>
<td>None</td>
<td>None</td>
<td>Y</td>
</tr>
<tr>
<td>3. Review of Internal Audit Activities – HRSA 340B Audit Overview</td>
<td><strong>MOTION</strong>: none was required. This was an informational presentation/discussion.</td>
<td>None</td>
<td>Y</td>
</tr>
</tbody>
</table>
BOARD AUDIT & COMPLIANCE COMMITTEE MEETING MINUTES – THURSDAY, JULY 28, 2022

AGENDA ITEM

DISCUSSION

DISCUSSION: Ms. Waishkey stated that the Health Resources Services Administration (HRSA) audited Palomar Health's 340B Program. The audits took place on January 19, 2022 and February 3, 2022, and the final report was received on May 19, 2022. The standard auditing period for all HRSA audits is April 1st through September 30th, therefore, this is the time period Palomar Health was audited. HRSA did not identify any findings regarding eligibility or diversion, although HRSA identified findings on duplicate discounts, which required Palomar Health to create a Corrective Action Plan.

Duplicate discounts occur when a drug is discounted under both the 340B and the Medicaid Rebate programs. Each company provides a Medicaid Exclusion File that lists each sites Medicaid Billing Numbers and National Provider Number. The Medicaid Exclusion File is used for billing Medicaid for drugs purchased at 340B pricing. HRSA’s finding for Palomar Medical Center Escondido listed incomplete billing information on the HRSA Medicaid Exclusion File. This makes Palomar Health liable to manufacturers of any covered drugs that are subject to this violation in the amount equal to the reduction in the price of the drug provided. The Corrective Action Plan is expected to be fully implemented by October 1, 2022 and all settlement payments completed by December 21, 2022. Palomar Health owes approximately 21 manufacturers a combined total of $58.68. The law requires that three attempts be made to communicate with each individual manufacturer for reimbursement. Due diligence will be completed once the three attempts are made. The HRSA audit went very well.

4. Q1 Q2 Compliance Hotline Case Report

MOTION: none was required. This was an informational presentation/discussion.

DISCUSSION: Ms. Waishkey presented the Q1 Q2 Compliance Hotline Case Report that covered January 1, 2022 through June 30, 2022. The report depicted a total of 23 cases, 20 which are closed, and 3 that are open. The reported cases and numbers are very standard; the top number of cases were in Misconduct or Inappropriate Behavior, followed by Discrimination or Harassment, Other Compliance Related Issues, and Patient Care. All cases are closed out as quickly as possible. Chair Greer stated that several are Human Resources issues and asked what department the Patient Care and Patient Abuse/Physical cases are sent to. Ms. Waishkey stated that Patient Care and Patient Abuse/Physical cases go to the Quality Department. Director Edwards-Tate asked if a presentation could be done on the Patient Care and Patient Abuse/Physical cases. Chair Greer stated that those cases would need to be presented in a closed session due to the sensitivity of the information. Ms. Waishkey clarified that all cases are received through the Compliance Hotline and that complaints could be from an employee, patient, or others. Director Edwards-Tate requested clarification on the complaints. Ms. Waishkey stated that the Compliance Hotline only reviews compliance
# Board Audit & Compliance Committee Meeting Minutes – Thursday, July 28, 2022

<table>
<thead>
<tr>
<th>Agenda Item</th>
<th>Conclusion/Action</th>
<th>Follow Up/Responsible Party</th>
<th>Final?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discussion</strong></td>
<td>complaints. Complaints that are not applicable to compliance are forwarded to the appropriate department for investigation, review, staff training, and/or provider communication. Issues that go to Quality or Human Resources are later discussed in the Board Quality Review and Board Human Resources Committees. Director Edwards-Tate requested to see the reports on the Patient Care and Patient Abuse/Physical cases. Director Greed stated that she will confirm that the Board members are receiving information on patient issues and that she would discover where to find that information. Chair Greer stated that she sees the Compliance Hotline phone number posted in many places around the hospital. Director Edwards-Tate again stated that she is very interested in seeing a specific report relative to the Patient Care and Patient Abuse/Physical cases reported in the Compliance Hotline Report. Ms. Diane Hansen stated that these concerns are reported at the Board Quality Meeting in a closed session and we can easily get that information. Director Edwards-Tate stated that she looks forward to getting that information.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Palomar Health 2022 Audit Planning by Moss Adams

| Motion: none was required. This was an informational presentation/discussion. | Y |

**Discussion:** Ms. Stacy Stelzriede, Partner at Moss Adams, introduced the Moss Adams team of Ms. Jessa May Sidebotham, Senior Manager, Mr. Jorge Araujo, Audit Manager, and Mr. Brian Conner, Concurring Reviewer. The presentation’s purpose was to share Moss Adams’ 2022 Audit Plan details with Palomar Health to provide a thorough understanding so Palomar Health may determine if further information should be provided to Moss Adams about additional risks that need to be incorporated into the audit. There would be no decisions to be made today and no findings to communicate.

Moss Adams’ responsibility as Palomar Health’s auditors is to form and express an opinion on whether all financials are prepared and conform with generally accepted accounting principles in accordance with standards issued by the AICPA and other governmental auditing standards. Moss Adams is also responsible to communicate significant matters during and at the end of the audits.

Scope of Services include:

- The Annual Audit which is comprised of the Annual Consolidation Financial Statement Audit.
- The Single Audit of Federal Awards which is for the year ending February 30, 2022. Moss Adams is in the process of completing the Single Audit for June 30, 2021. It is late due to the Federal Agency for Provider Relief Funds not finalizing the audit rules until April 2022. This audit report will be completed by September 30, 2022. The June 30, 2022 Single Audit should be done at the end of March 2023, which is nine months after Palomar Health’s fiscal year end. The Data
<table>
<thead>
<tr>
<th><strong>AGENDA ITEM</strong></th>
<th><strong>CONCLUSION/ACTION</strong></th>
<th><strong>FOLLOW UP/RESPONSIBLE PARTY</strong></th>
<th><strong>FINAL?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DISCUSSION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Collection form is tied to the Single Audit that is filed electronically with the report to the federal agency that granted the award. This Single Audit is a new audit that was triggered due to Palomar Health’s significant funds. These two reports will most likely be completed at different times.

Non-Attest Services are services that Moss Adams can assist Palomar Health management with while also remaining independent. Moss Adams cannot do the books and records, record journal entries, or come up with dollar amounts to be recorded. Moss Adams can assist with drafting the financial statements, Governmental Accounting Standards Board (GASB) 87 Leases, and with drafting the Data Collection form. The GASB 87 allows the present value of leases to be added to company assets and liabilities, which will provide a significant increase in Palomar Health’s assets and liabilities.

Ms. Jessa May Sidebotham stated that Moss Adams identified two components of the audit as Palomar Health and Palomar Health Medical Group. Both components will be audited. Moss Adams identifies significant audit risk areas such as errors in transactions and balances to material misstatements in the financial statements, fraud, and/or other significant or accounting developments that require special attention.

Significant Risks Identified:

- **Patient Revenue and Receivables:** Moss Adams will document their understanding of management’s allowance analysis, perform walkthroughs of controls related to these accounts by testing revenue charges or cash receipts, and will develop their independent estimates of what the net balance should be using historical data and compare that to what was recorded at Palomar Health.

- **Compliance with Terms and Conditions of the Federal Grant Awards:** this is from the PRS funding that Palomar Health received, which is a new transaction. Moss Adams will test the completeness and accuracy of the schedule of the expenditure of federal awards based on guidelines provided by HHS to ensure the grant revenue received was recognized in the correct period.

- **Cost Reports, Settlements, and Supplemental Funding:** this revenue is derived from third party reimbursement programs. Moss Adams will assess documents received from third party intermediaries, develop an independent estimate on receivables or payables, and compare that to what was reported at year end.

- **Contingent and Long Term Liabilities:** these risks are related to the bonds Palomar Health has and their financial requirements. Moss Adams will compare management calculations with calculations written within the agreements and then trace the amounts used to the accounting records.

- **Transactions with Affiliated Entities:** Moss Adams will capture all affiliated entities and ensure the transactions between entities are properly eliminated upon consolidation.
### BOARD AUDIT & COMPLIANCE COMMITTEE MEETING MINUTES – THURSDAY, JULY 28, 2022

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>CONCLUSION/ACTION</th>
<th>FOLLOW UP/ RESPONSIBLE PARTY</th>
<th>FINAL?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DISCUSSION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Palomar Health’s Adoption of GASB 87: this is a significant risk area since it is a new accounting development and Moss Adams will assist in the implementation by providing limited guidance to management. Moss Adams will obtain management’s analysis, will trace all inputs to the lease agreements, and ensure the required disclosures are in the financial statements.

Moss Adams’ responsibility is related to the detection of material misstatements that may have been caused by error or fraud; therefore, Moss Adams is responsible to obtain reasonable assurance that the financial statements are free of material misstatements whether they are caused by errors or fraud.

Ms. Sidebotham then presented the Audit Time Line:

- May 2022: Planning Meeting with Management
- May 16, 2022: Interim Fieldwork Begins
- July 28, 2022: Entrance Meeting with Board Audit & Compliance Committee
- August 1, 2022: Fieldwork Procedures for Single Audit Begins
- August 22, 2022: Final Fieldwork Procedures for the Consolidated Financial Statement Begins
- September 2022: Discuss Draft of Consolidated Financial Statements and Auditor’s Report with Management
- October 2022: Exit Meeting and Board Audit and Compliance Committee Approval of the Consolidate Financial Statements
- October 2022: Issue Auditor’s Report on the Consolidate Financial Statements

Audit Deliverables:

- Report to Management
- Report to those Charged with Governance
- Single Audit Report for the year ending June 30, 2021 to be issued by the end of September 2022.

Moss Adams’ expectations are that there will be no adjusting of journal entries, that books and records will be closed before the beginning of the fieldwork, and that Palomar Health will provide requested documents in the Client Audit Preparation schedule one week prior to the beginning of the fieldwork.

Moss Adams will communicate proposed adjustments and control deficiencies to management when identified, and will discuss any additional fees over estimate in an engagement letter with management. Moss Adams would be appreciative of all communication with management to ensure all risks are reviewed.

Ms. Stelzriede continued the presentation with accounting developments that Moss Adams frequently discusses with management.
## BOARD AUDIT & COMPLIANCE COMMITTEE MEETING MINUTES – THURSDAY, JULY 28, 2022

### AGENDA ITEM

<table>
<thead>
<tr>
<th>DISCUSSION</th>
</tr>
</thead>
</table>

**GASB 87:** this will treat all leases as financings and includes a non-cancellable period. Lessees will record as an intangible asset at present value of future lease payments as a liability. Lessor will record a lease as a receivable and deferred inflows of resources for cash received up front, plus future payments. It is effective for fiscal years beginning after June 15, 2021.

**GASB 89:** this is a new standard. Interest incurred during construction of an asset that was once eligible for capitalization must now be expensed as a period cost effective for reporting periods beginning after December 15, 2020. Mr. Hugh King stated that Palomar Health has not been capitalizing these expenses since the first of the year, and that for the purpose of drawing on our bonds, we can still capitalize interest but not on Palomar Health’s financials. This does create an issue of not being able to compare financials to other hospitals that are not GASB reporters.

**GASB 92:** this contains minor cleanup items, none of which have an impact on Palomar Health. It’s only for management’s information.

**GASB 93:** this Replacement of Interbank Offered Rates is a new issue and will replace the London Interbank Offer Rate (LIBOR). It will only apply to Palomar Health if Palomar Health has debt tied to LIBOR. This only affects organizations that have derivatives, is more of an agreement issue, and is for management’s information.

**GASB 97:** deferred compensation plans require that pension plans be included if you are a fiduciary of a plan that is included in the financial statements. All were accounted for last year, so there is no impact.

Moss Adams Annual Health Care Conference will be held on November 3 & 4, 2022. Ms. Stelzriede invited all Board members and corporate officers to attend. The conference lasts for one and one half days and will be attended by peers and other Board members. Registration opens August 4, 2022. Ms. Stelzriede will send the announcement to Palomar Health’s Board and others. The conference is an educational platform for corporate level executives and Board members on the risks and challenges of healthcare and what is happening in healthcare industry today.

Chair Greer stated that if anyone has any questions, please go directly to Ms. Stelzriede. At the end of the audit the Board members will have time to ask questions of Moss Adams without management present. Chair Greer also thanked Ms. Stelzriede and Ms. Sidebotham for a wonderful presentation.

### V. FINAL ADJOURNMENT

**DISCUSSION:** Committee Chair Greer asked if there were any subjects the committee wanted to discuss at the next meeting. Hearing no replies and there being no further business, Committee Chair Greer adjourned the meeting at 4:45 p.m.

| MOTION: none | FINAL? | Y |

---

07.28.22 Board Audit & Compliance Committee Meeting Minutes

7
## BOARD AUDIT & COMPLIANCE COMMITTEE MEETING MINUTES – THURSDAY, JULY 28, 2022

<table>
<thead>
<tr>
<th>AGENDA ITEM</th>
<th>CONCLUSION/ACTION</th>
<th>FOLLOW UP/RESPONSIBLE PARTY</th>
<th>FINAL?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DISCUSSION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SIGNATURES:**

**COMMITTEE CHAIR**

Linda Greer

**COMMITTEE SECRETARY**

Nanette Irwin, BSIT

07.28.22 Board Audit & Compliance Committee Meeting Minutes