AUDIT/COMPLIANCE COMMITTEE
FOR THE BOARD

TUESDAY, SEPTEMBER 15, 2009

8:00 - 10:00 A.M.

GRAND 1ST FLOOR CONFERENCE ROOM

Palomar Pomerado Health
Internal Audit and Compliance
Board Committee

PPH Grand Office Bldg

Tuesday – September 15, 2009   **456 E. Grand, Escondido**
8:00 – 10:00 A.M.   **Conference Room - 1st floor**

A G E N D A

Call To Order

- Public Comments
- *Approval of Minutes – August 18, 2009

	Item	*Presenter*	*Mins*
1.	Welcome / Introductions • Tammy Boring, Senior Compliance Auditor	T. Boyle	5
2.	Overview of the Internal Audit Function • National Trends and Outlook • The Concept of Continuous Monitoring • PPH Audit Function Today • Internal Audit Activities	T. Boyle	60
3.	Red Flag Plan	M. Knutson	10
4.	The Legal-Compliance-Internal Audit Function	J. Sarti	5
5.	* Date/Time/Location of Next Meeting	Linda Greer	5

ADJOURNMENT

Linda Greer, Chairman	Janine Sarti, General Counsel	John Lilley, M.D.
Jerry Kaufman, M.A.P.T.	Bob Hemker, CFO	Lachlan Macleay, M.D,
Michael Covert, CEO	Tom Boyle, Internal Audit Officer	Bruce Krider, M.A., Alt
Marty Knutson, Corporate Compliance Officer	Anna Ha, Administrative Fellow	Donna Goh, IA Assistant

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".

D R A F T

Palomar Pomerado Health
INTERNAL AUDIT & COMPLIANCE
BOARD SUB-COMMITTEE MEETING
PPH Corporate Building
456 E. Grand Ave.
1st Floor Conference Room
August 18, 2009

AGENDA ITEM/ PRESENTER/ORIGINATING DATE	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/ RESPONSIBLE PARTY/FINALIZED
CALL TO ORDER	8:00 A.M. by Dir Greer. Quorum comprised of Directors Greer, Krider, and Kaufman. **Also attending:** Janine Sarti, David Tam, Bob Hemker, Lachlan Macleay, MD, Tom Boyle, Marty Knutson, and Brenda Turner.		
NOTICE OF MEETING	Notice of Meeting was posted consistent with legal requirements.		
PUBLIC COMMENTS	None		
ACTIONS AND OBSERVATIONS	Dir Greer made the following recommendations for the minutes of July 21, 2009: • Remove Alan Larson, M.D. from the committee member list. • Page 3: Revise "Three" to "There." • Page 4: Dir Greer inquired Ms. Knutson if she felt the 6-month time period was reasonable to get acquainted with the organization and provide an initial compliance assessment. • Page 6: Dir Greer inquired if Mr. Boyle is working with Ms. Sarti on developing controls for expense reimbursement to include vendors and contractors.	**REMOVED.** **REVISED.** Marty concurred this was acceptable. Mr. Boyle had presented to EMT Finance the issue of controlling reimbursements and he has been tasked by EMT Finance to develop a district-standard procedure for all PPH including vendors and contractors. A draft procedure is due	

AGENDA ITEM/ PRESENTER/ORIGINATING DATE	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/ RESPONSIBLE PARTY/FINALIZED
	• Page 6: Under "Construction Audit," delete "Dir Greer agreed that PPH . . . start of such processes."	at the next EMT Finance on Monday, September 21, 2009. **DELETED.**	
APPROVAL OF MINUTES •	The minutes of July 21, 2009 were reviewed and approved.	**MOTION:** by Dir Krider, 2nd by Dir Kaufman and carried to approve the May 19, 2009 minutes as submitted. All in favor — none opposed.	
• **Welcome / Introductions**	Mr. Boyle informed the Committee that due to some transition difficulties, the start date for the newly-hired Senior Compliance Auditor has been rescheduled to August 24, 2009. Therefore, the introduction will be postponed till the next Audit-Compliance Board Meeting.		
• **Creating Continuous Compliance Readiness at PPH**	Ms. Knutson presented her ideas on creating continuous compliance readiness. Highlights of the presentation include: • Goal for PPH is to have continuous compliance readiness. • Compliance and ethics support each other. • Identity theft deadline by the FTC is November 1, 2009. The draft plan for PPH will be presented to the Board for approval. Regular monitoring on efforts related to this plan is anticipated for this • Of the different stages/levels of compliance program development, Ms. Knutson observes that efforts at PPH are at a"newish" stage. • Departments have been writing corrective plans for regulatory deficiencies with Legal's assistance; however, this should be coordinated with the CCO.	Creating Continuous Compliance Readiness at PPH Presentation is available on the Leadership Drive.	

AGENDA ITEM/ PRESENTER/ORIGINATING DATE	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/ RESPONSIBLE PARTY/FINALIZED
	• Target is to have an awareness survey in spring, 2010 and use that as a baseline for future efforts. • There is need to raise awareness that everyone is to speak up where compliance matters is concerned. • Researching the possibility of highlighting compliance in each issue of "Momentum." • Ms. Knutson will be working with Steve Inscoe, Director of Organizational Learning, to review how compliance topics have been covered in the required annual safety test for all staff. • Immediate change in new-employee orientation for compliance has already been put in place. • Privacy training should not be optional. • Need to better disseminate information from top to bottom. • Evaluate self-report procedures and follow-up processes. • The goal of all these efforts is to be more proactive with prevention rather than reactive.		
• **Hotline Services via Global Compliance**	• Legal selected this vendor out of several reviewed. • Live person 24/7, 365 days, in 150 languages answering calls. • Same phone number. • Incident management system included. • Budget will be under Compliance; approximately $1K – 3K. • Will be available via internet and intranet with current language being English. Target is to include Spanish and Tagalog versions of the website as well.		

D R A F T

AGENDA ITEM/ PRESENTER/ORIGINATING DATE	DISCUSSION	CONCLUSIONS/ACTION	FOLLOW-UP/ RESPONSIBLE PARTY/FINALIZED
	• Service will roll out after presentation at Leadership Meeting on Thursday, August 27, 2009.		
• **Open discussion**	Dir Krider requested clarification on the roles and functions between Audit, Compliance, and Legal. His interests include: • How do the three components correlate, coordinate, and communicate in addressing issues that would/could involve all three.		**For next meeting, Ms. Sarti, Ms. Knutson, Mr. Boyle to provide presentation on their triage methods where Audit, Compliance, and Legal are involved together.**
• **Date/Time & Location of next meeting**	**Tuesday, September 15, 2009, 8:00 A.M. in the Corporate Conference Room @ 456 E. Grand.**		
(FINAL) ADJOURNMENT	9:45 A.M.	Dir Greer moved to adjourn. Dir Kaufman 2nd motion.	
SIGNATURES ▪ **Committee Chairperson** ▪ **Secretary to Committee**	_____ [Linda C. Greer, R.N.] _____ [Donna Goh]		

Overview of the Internal Audit Function

TO: Audit/Compliance Committee for the Board of Directors

MEETING DATE: Tuesday, September 15, 2009

FROM: Tom Boyle, District Audit Officer

BY: Donna Goh

Background: Presentation on national trends and outlook, the concept of continuous monitoring, PPH's audit function today, and an overview of the internal audit activities.

Budget Impact: N/A

Staff Recommendation: Understand the program and support the need to have adequate staffing for efficient auditing requirements.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: **X**

Required Time:

Overview of the Internal Audit Function

- National Trends and Outlook for the Profession
- The Concept of Continuous Monitoring
  - Core Benefits
  - Evolution
  - Transition / Time-line
- PPH Audit Function Today
  - Audit Universe vs. Scope of Coverage vs. Staffing
  - Staffing – competencies, adequacy — number of staff, out-sourcing
- Internal Audit Activities

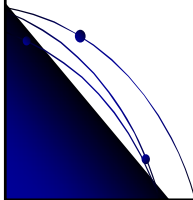# Internal Audit 2012

PRICEWATERHOUSECOOPERS 🅿

- Between now and 2012 — need for increased internal audit functions from technology, risk management, fraud prevention, globalization

- <u>Continuous auditing or monitoring is the top factor predicted</u>

- Auditing the <u>E</u>nterprise Risk Management (ERM) process is the second-ranked factor

Internal Audit 2012

PRICEWATERHOUSE COOPERS

- Controls-focused approach expected to diminish

- Adopt risk centric mindsets to remain key players in assurance and risk management.

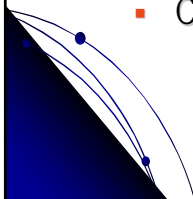# Internal Audit 2012

PRICEWATERHOUSE COOPERS

5 identifiable trends will have the greatest impact on internal audit in the coming years:

- Globalization
- Changes in Risk Management
- Advances in Technology
- Talent and Organizational Issues
- Changing Internal Audit Roles

Internal Audit Staffing Levels vs. National Benchmarks

- An accepted IA staffing benchmark is one internal auditor per every $200-$250 million in net patient service revenue. *($1 billion in net revenues = 4 to 5 internal auditors)*

- Information technology expertise is challenging

- Certain niche areas may be better co-sourced such as construction audit, information security, and investments.

Internal Audit Challenge

- Identify Organization Risks
- Align Appropriate Resources
- Develop an Effective Plan

Audit Universe → **Audit Risks** → **Audit Resources** → **Audit Plan**

- Operational
- Financial
- Compliance
- IT/Security
- Investigations

Audit Risks	Audit Resources	Audit Plan
- Risk Assessment	- Staff	- Priorities
- Dynamic	- Skills/Competency	- Scope
- Integrated	- Outsource	- Timing
	- Continuous Monitoring	

Audit Risk Assessment

- Financial Reporting Controls Risk Assessment

- Compliance Risk Assessment

- HIPAA Information Security Risk Assessment

- Enterprise Risk Management Risk Assessment

- External auditors' reports

Auditable Areas

Operational	Financial	IT/Security	Compliance
Acute Rehab Services	Accounts Payable	Asset Management	24 Hour rule (one day stays)
Anesthesia	Bio-Med	Change Management	3 Day Window
Assisted Living	Business Partner Relationship Management	Data Access / Information Security	Appropriateness of MediCal payments
Behavioral Health	Business Partner Relationship Management	Disaster Recovery Planning	Billing for services or items that have not been documented
Benefits Plan Administration	Cash / Treasury / Investment	Help Desk	Billing on an outpatient basis for "inpatient-only" procedures
Bio-Med	Collections and Bad Debts	Incident Response	Charge Master
Business Continuity / Disaster preparedness / Disaster Recovery	Community Outreach	Information / Records Management	Clinical Documentation
Business Partner Relationship Management	Contract Negotiations	Information Security/HIPAA	Clinical Orders
Cardiac Rehab Services	Corporate / Employee Health	IT System Maintenance	Coding (ie use of modifiers with national correct coding initiative edits)
Cardiology	Debt Compliance	Key Business Applications	Corporate Compliance/Integrity
Case Management	Escondido Surgery Center	Network Administration	Credentialing and Licensure - Medical Staff
Cath Lab	Family Violence / SART / CAP	Project Management	Data Access / Information Security
Charge Master	Financial Arragements	Software Licensure Compliance	Diagnostic testing in Emergency Dept
Charity Care	Fixed Assets	Systems & Technology Planning	Employee 401(k) or 403(b)
Claim Development and Submission	Foundation		Employee Policies
Clinical Documentation	Gift Shops		Health Development Corp. / Grants
Clinical Orders	Home Health Services		Improper claims for clinical trials
Coding	Liability Accruals / Cut off		Improper Evaluation and Management code selection
Collections and Bad Debts	Litigation Management		Improperly billing for observation services.
Communications (PBX Call Center)	Physician Relations		Inappropriate balance billing
Community Outreach	Purchasing		Independent diagnostic testing facilities
Compensation/Benefits	Vendor Management		Information Security/HIPAA
Construction / Renovations	Volunteer Services / Auxiliary		Inpatient / outpatient outlier and other charge-related issues
Contract Management / Managed Care	Women's Health Connection		Lab unbundling

Internal Audit Function

Types of Audits in Annual Plan and Alignment with Risks

Operational — Efficiency and effectiveness of operations

Financial — Ensure accuracy and reliability of financial reporting

Compliance — To ensure compliance with applicable laws and regulations

IT/ Security — To determine if technology components of operations are functioning as intended

Investigations — To respond to urgent needs and requests regarding possible fraud and irregularities

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Internal Audit Staffing Challenge

- Auditing a large, complex organization with limited resources
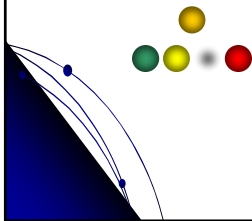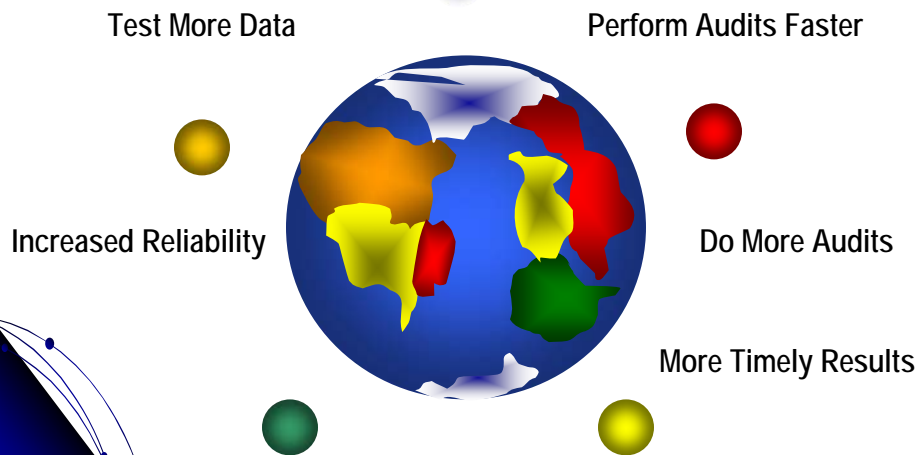- Utilize technology to leverage audit resources

Audit Staff

Audit Risk Universe
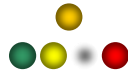
Internal Audit Staffing Function

- Identify appropriate staffing levels (skills, competencies)
- Outsourcing of audit resources (higher expense)

Audit Universe

Audit Staff

# The Technology Advantage

ACL provides auditors with the power to increase their capabilities

Test More Data

Perform Audits Faster

Increased Reliability

Do More Audits

More Timely Results

Internal Audit Function Overview

- Risk Assessment — audit related risks in Audit Universe
- Staffing — competencies, adequacy in number of staff, out-sourcing,
- Big Picture — outlook for the future, national trends

Audit Risk Universe
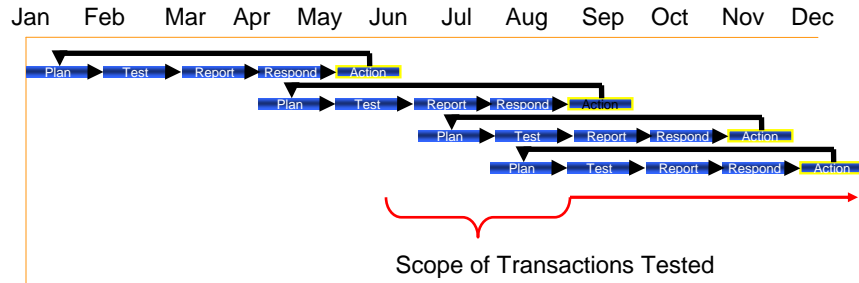

Traditional Audit Cycle

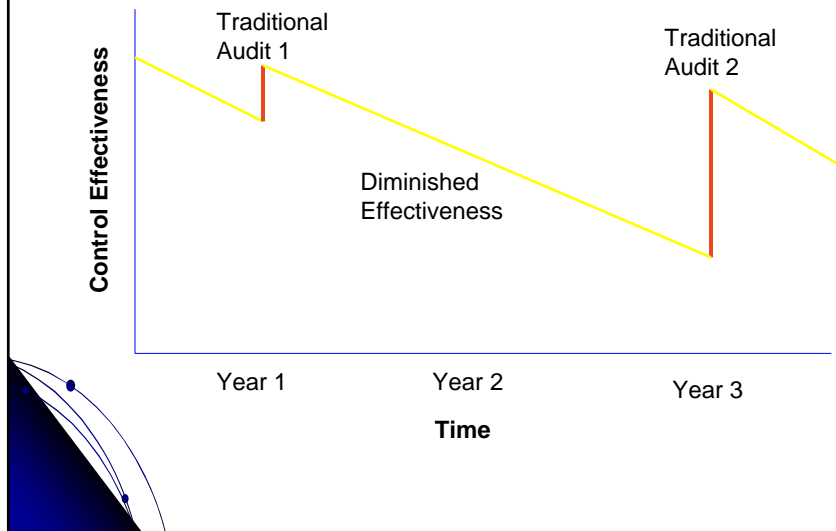| Plan | Test | Report | Respond | Action |
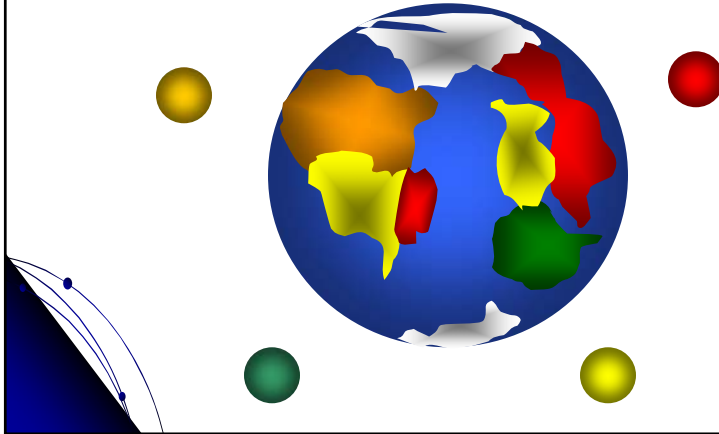
Lag Time to Correct Transactions

- Traditional audits are performed on a cyclical basis, with a beginning and end.
- Results of traditional audits are based on a point in time and are subsequent to transactions tested due to the retrospective audit and timeliness for response and action.

Traditional Audit Cycle Overview

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

Plan → Test → Report → Respond → Action

Plan → Test → Report → Respond → Action

Plan → Test → Report → Respond → Action

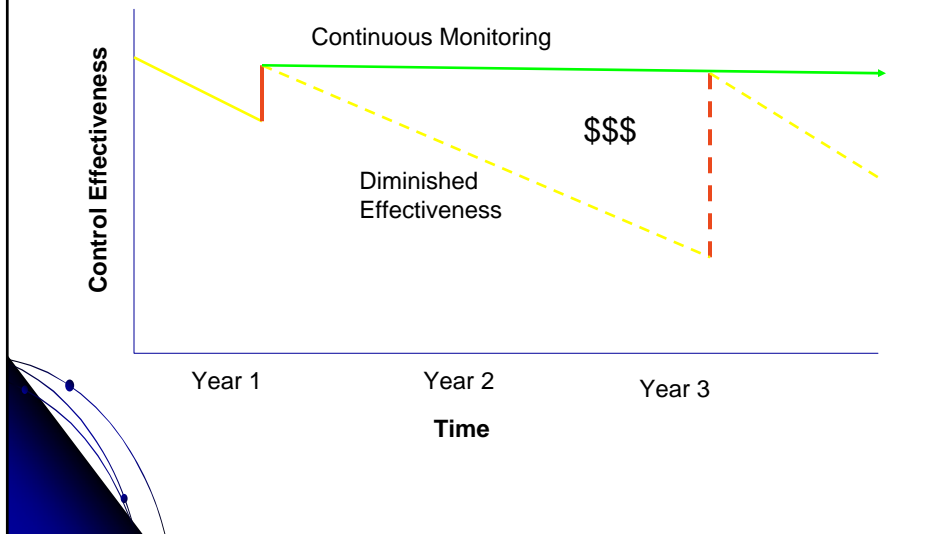Plan → Test → Report → Respond → Action

Scope of Transactions Tested

- Limited records for a single point in time
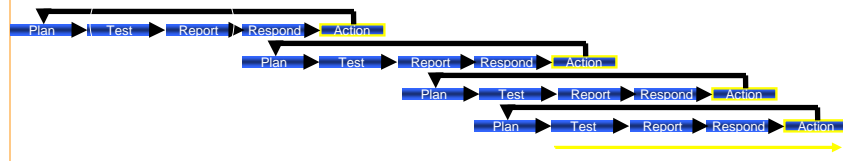- Yellow Line = Time it takes to correct the action

Audit Control Breakdowns

Traditional Audit 1

Traditional Audit 2

Control Effectiveness

Diminished Effectiveness

Year 1 Year 2 Year 3

Time

8

Audit Control Breakdowns

Continuous Monitoring

Control Effectiveness

$$$

Diminished Effectiveness

Year 1 Year 2 Year 3

Time

Traditional Audit vs. Continuous Monitoring

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

Plan Test Report Respond Action

Plan Test Report Respond Action

Plan Test Report Respond Action

Plan Test Report Respond Action

Audit Activities FY 10

| Project	Jul -09					Aug -09				Sep -09	Oct -09	Nov -09	Dec -09	Jan -10	Feb -10	Mar -10	Apr -10	May -10	Jun -10
Billing Compliance																			
Physician Contracts Audit																			
LEIE Excluded Provider Test																			
Managed Care Contract Performance																			
MD List – Monthly Update																			
Contractual Allowances/Zero Balance Accounts																			
Accounts Payable, Purchasing																			
Performance Excellence Census Report																			
Lawson Non-Labor Expense																			
Holds/Unapplied Payments																			
EMT Dashboard, PFS Components																			
Lawson AP Tests																			
Medicare Inpatients/Observations																			
Common Library																			
Bad Debt Write-Off Analysis																			
Monthly Expense Analysis																			
ICU Performance Report																			
Last Payment																			
Vendor Delta Updates																			
340X Distribution Compliance																			
Medicare Discharges																			
Open Cases																			

9

Audit Analytics Continuum

AD HOC

- Explorative and investigative in nature
- Seeking documented conclusions and recommendations
  - Specific analytic queries — performed at a point in time — for the purpose of generating audit report findings.

REPETITIVE

- Periodic analysis of processes from multiple data sources
- Seeking to improve the efficiency, consistency and quality of audits.
  - Managed analytics — created by specialists — and deployed from a centralized, secure environment, accessible to all appropriate staff.
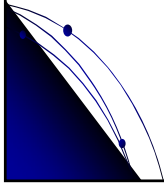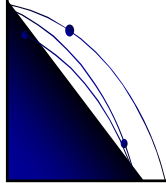
Audit Analytics Continuum

CONTINUOUS

- "Always On" — Scripted auditing and monitoring of key processes.
- Seeking timely notification of trends, patterns, and exceptions.
- Supporting risk assessment and enabling organizational efficiency.
  - Continual execution of automated audit tests to identify errors, anomalies, patterns and exceptions as they occur.
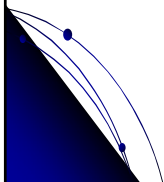
Benefits of Audit Technology (Analytic Testing):

- Ability to test 100% of transactions, as opposed to sampling

- Automation of tests allows more time to analyze and investigate

- Reduced potential for manual audit tasks

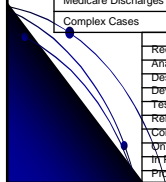- Timely notification of errors results in minimal losses

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Audit Activities FY 10

Project	Jul -09					Aug -09				Sep -09	Oct -09	Nov -09	Dec -09	Jan -10	Feb -10	Mar -10	Apr -10	May -10	Jun -10
Billing Compliance																			
Physician Contracts Audit																			
LEIE Excluded Provider Test																			
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Cerner Delta Updates																			
HIPAA Distribution Compliance																			
Medicare Discharges																			
Complex Cases																			

LEGEND

Request/Proposal	
Analysis	
Design	
Development	
Test	
Released	
Continuous Monitoring	
On Hold	
In Progress	
Processing	

PPH "Red Flag" Plan

TO: Audit/Compliance Committee for the Board of Directors

MEETING DATE: September 15, 2009

FROM: Martha Ann Knutson, Corporate Compliance Officer

BY: Donna Goh

Background: The Federal Trade Commission (FTC) requires certain businesses to adopt plans for avoiding and responding to various "red flag" situations relating to potential identity theft.

Budget Impact: N/A

Staff Recommendation: Adoption of the Plan as set out to the Committee.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: **X**

Individual Action:

Information:

Required Time:

Form A - Red Flag Plan 091509

PALOMAR POMERADO HEALTH

Medical Identity Theft ("Red Flag") Plan

Presented to the Audit Committee of the Board of Directors
September 15, 2009

Executive Sponsor: Corporate Compliance Officer

I.   Procedures:

- Patient Identification at time of service
- Access to / changes of information in existing accounts
- Responding to claims of misidentification
- Encryption of information sent outside the firewall
- Correction of Medical Records
- Reporting lost or stolen devices
- Internet access and Use
- Data storage on laptops and PCs
- Password Standards

II.   Technical Safeguards:

- DLP tool (Vontu) monitors outgoing email traffic [activity measured for BSC] and can be used to scan data stored on laptops / PCs
- Encryption tool available for email ("pphsecure")

III.   Training:

- "Read and sign" for new procedure
- Enhance training module for registration staff
- Awareness messages via email
- Presentations to MEC, PMC Quarterly Medical Staff meeting and medical office staff meeting
- Annual Momentum article

IV. Patient / Community Education

- Classes planned for November 2009 and following (depending on interest)
- Community information sheet available on website and for distribution at events and in physician offices
- Article in Healthsource

V. Monitoring

- Tracking via Incident management system
- Quarterly meeting of interested stakeholders (facilitated by Information Security Officer, reported to Compliance Committee).