Audit Committee Agenda

Committee Members
Chair: Marjorie Petty, JD
Todd Furniss, JD
Elizabeth Palacios, MD

Agenda for the ***Audit Committee*** meeting of the Dallas County Hospital District is scheduled for ***Wednesday, February 8, 2023 at 12:30 PM***, at 5200 Harry Hines Blvd (WISH Building) Dallas, TX 75235, Executive Conference Room 02-175. (If assistance is needed in locating the room, please see the Administration receptionist on the 4th floor, 04-131.) A quorum will be physically present at the location of the meeting. Videoconferencing access is also possible via WebEx. That application is available at https://www.webex.com/downloads.html. Teleconferencing access is possible by calling +1-415-655-0001. Both virtual access forms require inputting (meeting number: 2623 631 3294; meeting password: 1234) to join the meeting. The ***Audit Committee*** reserves the right to exercise discretion and may convene in Executive Session as permitted by Texas Government Code §§551.071 (consultation with attorney), 551.072 (deliberations regarding real estate), 551.074 (personnel matters), 551.076 (deliberations regarding security devices or security audits), 551.078 and/or 551.0785 (deliberations by medical committee or by governmental body that administers a public insurance, health or retirement plan regarding individuals' medical or psychiatric records), 551.085 (deliberation by governing board of certain providers of health care services), 551.087 (deliberation regarding economic development negotiations), 551.088 (deliberation regarding test item); Texas Government Code §418.183 (deliberation of information under §§418.175 – 418.182 for purposes of disaster management or disaster planning); Texas Health & Safety Code §161.032 (medical committee or medical peer review committee records, information or reports; and/or medical committee or medical peer review committee proceedings under Tex. Health & Safety Code Chapter 161 and/or Tex. Occ. Code Chapters 151 and 160); and/or as otherwise authorized by law on any item listed below. The ***Audit Committee*** may consider any of the agenda items in open or executive session and may continue the meeting as necessary to accomplish the business at the time and place designated by the Chair to reconvene.

		PAGE	TIME (MIN)	PRESENTER(S)
I.	**Opening/Call to Order/Declare a Quorum Present/Mission Statement/Opening Remarks** ***Advance Wellness | Relieve Suffering | Develop and Educate*** **I CARE** **I**ntegrity **C**ompassion and Collaboration **A**ccountability **R**espect **E**quity			Chair
II.	**Public Comments Regarding Agenda Items** *See public comment registration information and rules at https://www.parklandhospital.com/board-of-managers*			Chair
III.	**Reports Requiring Deliberation(s) or Approval(s)**			
A.	Parkland's Foundation Financial Statements and Independent Auditor's Report, Fiscal Year 2022	*3*	10 mins	Lori K. Orta, PC
B.	DCHD Financial Statement Audit, Fiscal Year 2022	*21*	10 mins	Chris Clark, Forvis
C.	Open Session Audit Follow-up Summary and Report	*103*	10 mins	Vic Summers
D.	Audit Report Summary	*108*	05 mins	Vic Summers

		PAGE	TIME (MIN)	PRESENTER(S)
i.	Employee Health Plan Audit, Report No. 22-01	*110*	05 mins	Vic Summers
ii.	Procurement and Contracting Audit, Report No. 22-03	*118*	05 mins	Vic Summers
iii.	UTSW Master Service Agreement – CVTS Process Audit, Report No. 22-16	*126*	05 mins	Vic Summers
iv.	Physical Inventory - Fiscal Year 2022 Audit, Report No. 22-11	*131*	05 mins	Vic Summers Amy LaBarge
IV.	**Executive Session** Tex. Gov't Code §§551.071; 551.074, 551.076, 551.089; Tex. Health & Safety Code §§161.032			
A.	Executive Session Audit Follow-up Report [§§161.032]	*139*	10 mins	Vic Summers
B.	Audit Reports Summary [§§161.032]	*146*	05 mins	Vic Summers
i.	UTSW Contract Medical Documentation, Report No. 21-19	*148*	05 mins	Vic Summers
ii.	HIPAA Privacy Audit, Report No. 22-18	*162*	05 mins	Vic Summers
iii.	COVID-19 Waivers – Post Public Health Emergency Audit, Report No. 22-04	*169*	05 mins	Vic Summers
C.	Consultation with Attorney regarding: [§§551.071]		15 mins	Steven Roth
i.	Legal Representation			
ii.	Status of litigation, claims and settlements			
D.	Independent Briefing with Audit Committee (Verbal) [§§551.074]		10 mins	Chair
V.	**Action Items**			
A.	Committee may take action on any agenda item(s) above			Chair
VI.	**Closing Remarks**			Chair
VII.	**Reference Documents**			
A.	Annual Report – Fiscal Year 2022	*174*	05 mins	Vic Summers
B.	Audit Plan Update – Fiscal Year 2023	*179*	05 mins	Vic Summers
C.	Internal Quality Assurance Review (QAR), Report No. 22-13	*181*	05 mins	Vic Summers
VIII.	**Executive Session Reference Documents**			
A.	List each item included in the information section			
IX.	**Adjourn**			Chair

Stand FOR PARKLAND

Parkland Foundation dba Parkland Health Foundation
(A Component Unit of Parkland Health & Hospital System dba Parkland Health System)
Independent Auditor's Report
and Financial Statements
September 30, 2022 and 2021

Communications Related to the Parkland Health Foundation Audit
Presented to the Audit Committee
Dallas County Hospital District
d.b.a. Parkland Health & Hospital System

February 8, 2023

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LORI K. ORTA, P.C.
Certified Public Accountant

Stand FOR PARKLAND

Required Communication To Those Charged With Governance

Lori K. Orta, P.C. responsibilities include:

- Expressing an opinion on the financial statements based on our audit.
- Conducting the audit in accordance with auditing standards generally accepted in the United States of America.
- The opinion was an unmodified or "clean" opinion stating the financial statements were presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

LORI K. ORTA, P.C.
Certified Public Accountant

Stand FOR PARKLAND

Required Communication To Those Charged With Governance

Management responsibilities include:

- Selection and use of appropriate accounting policies as described in Note 1.
- Selection and application of accounting principles.
- Preparation and fair presentation of the financial statements in accordance with U.S. GAAP and in accordance with GASB Framework.
- Providing unrestricted access to information and personnel.
- Establishing and maintaining internal controls, including the design and implementation of programs and controls to present and detect fraud, and for informing us about all known or suspected fraud.

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Required Communication To Those Charged With Governance (cont.)

Sensitive Estimates:

- Estimate of the allowance for doubtful accounts.
- Estimate of fair value of investments.
- Estimate of in-kind contributions.
- Estimate the cost of providing various programs and supporting services.
- Estimate of the discount for pledges receivables.

Sensitive Disclosures:

- Conditional promises to give in Note 7.
- Risks, economic outlook and uncertainties in Note 13.

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Required Communication To Those Charged With Governance (cont.)

No difficulties encountered in performing the audit.

No disagreements with management.

No “second opinion” shopping.

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Required Communication To Those Charged With Governance (cont.)

There were no audit adjustments.

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Stand FOR PARKLAND

Financial Statements

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Stand FOR PARKLAND

Statements of Net Position – Assets
September 30,

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 24,907,992	$ 20,873,168
Short-term investments	6,052,109	7,050,630
Pledges receivables, current portion	2,023,939	1,671,218
Other receivables	2,690	7,559
Prepaid expenses	14,359	3,852
Total current assets	33,001,089	29,606,427
NONCURRENT ASSETS		
Long-term investments	1,589,970	2,287,880
Pledges receivables, noncurrent, net	2,077,944	1,550,153
Total noncurrent assets	3,667,914	3,383,033
TOTAL ASSETS	$ 36,669,003	$ 33,444,460

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Stand FOR PARKLAND

Statements of Net Position – Liabilities
September 30,

	2022	2021
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 41,582	$ 65,574
Due to Parkland	1,089,484	2,749,059
Due to Parkland Center for Clinical Innovation	110,760	-
Refundable advance	477,501	654,297
Total current liabilities	$ 1,719,327	$ 3,468,930

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Stand FOR PARKLAND

Statements of Net Position – Net Assets
September 30,

	2022	2021
NET POSITION		
Nonexpendable		
Patient assistance	$ 7,801,643	$ 7,429,520
Total nonexpendable restricted net position	7,801,643	7,429,520
Expendable		
Patient assistance	23,136,471	18,149,857
Parkland Center for Clinical Innovation	758,198	756,337
Comprehensive Breast Center	360,098	1,030,102
ISFP Holdings LLC	2,906	2,906
Total expendable restricted net position	24,257,673	19,939,202
Total restricted net position	32,059,316	27,368,722
Unrestricted net position	2,890,360	2,606,808
Total net position	34,949,676	29,975,530
TOTAL LIABILITIES AND NET POSITION	$ 36,669,003	$ 33,444,460

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Stand FOR PARKLAND

Statements of Changes in Net Position, – Operating Revenues and Expenses
September 30,

	2022	2021
OPERATING REVENUES		
Contributions and donations	$ 15,255,671	$ 7,977,814
Contributions received from Parkland	450,000	450,000
Donated salary and benefits	3,676,670	3,607,631
Donated operating expenses	155,849	151,051
Bad debt recovery	-	500,000
Total operating revenue	19,538,190	12,686,496
OPERATING EXPENSES		
Support to Parkland		
Patient assistance	$ 7,039,367	$ 6,463,371
Parkland Center for Clinical Innovation	242,450	-
New Parkland Campus	-	845,994
Comprehensive Breast Center	2,000,000	22,000,000
Total support to Parkland	9,281,817	29,309,365
Supporting services		
Management and general	1,819,877	1,977,040
Fundraising	2,444,604	2,350,959
Total supporting services	4,264,481	4,327,999
Total operating expenses	13,546,298	33,637,364
Operating income (loss)	$ 5,991,892	$ (20,950,868)

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Statements of Changes in Net Position, – Nonoperating Activities and Changes in Net Position
September 30,

	2022	2021
NONOPERATING ACTIVITIES		
Net investment activity	$ (1,253,793)	$ 1,184,646
Loss on sale of land	-	(110,000)
Total nonoperating activities	(1,253,793)	1,074,646
OTHER CHANGES IN NET POSITION		
Nonexpendable contributions and donations	236,047	363,743
Total other changes in net position	236,047	363,743
Net position, at beginning of year	$ 29,975,530	$ 49,488,009
Changes in net position	4,974,146	(19,512,479)
Net position, at end of year	$ 34,949,676	$ 29,975,530

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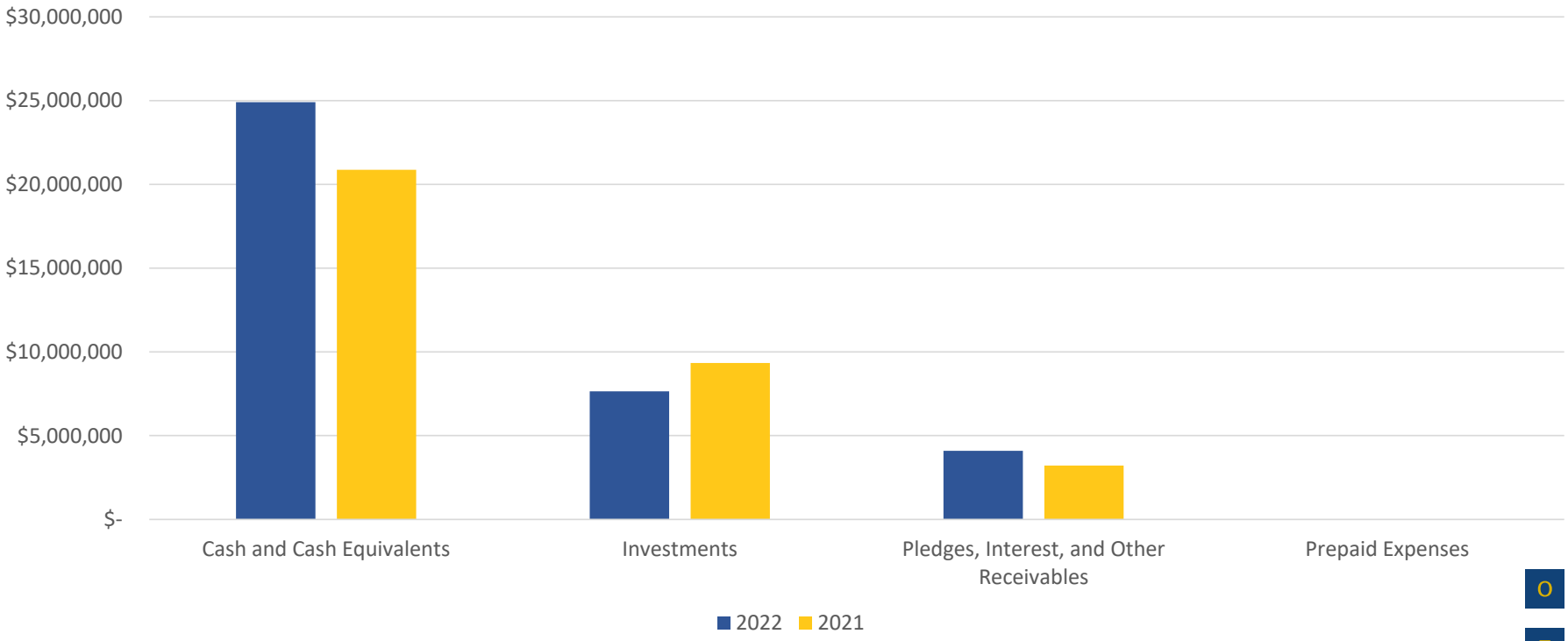
Stand FOR PARKLAND

Financial Statement Analysis: Assets
September 30,



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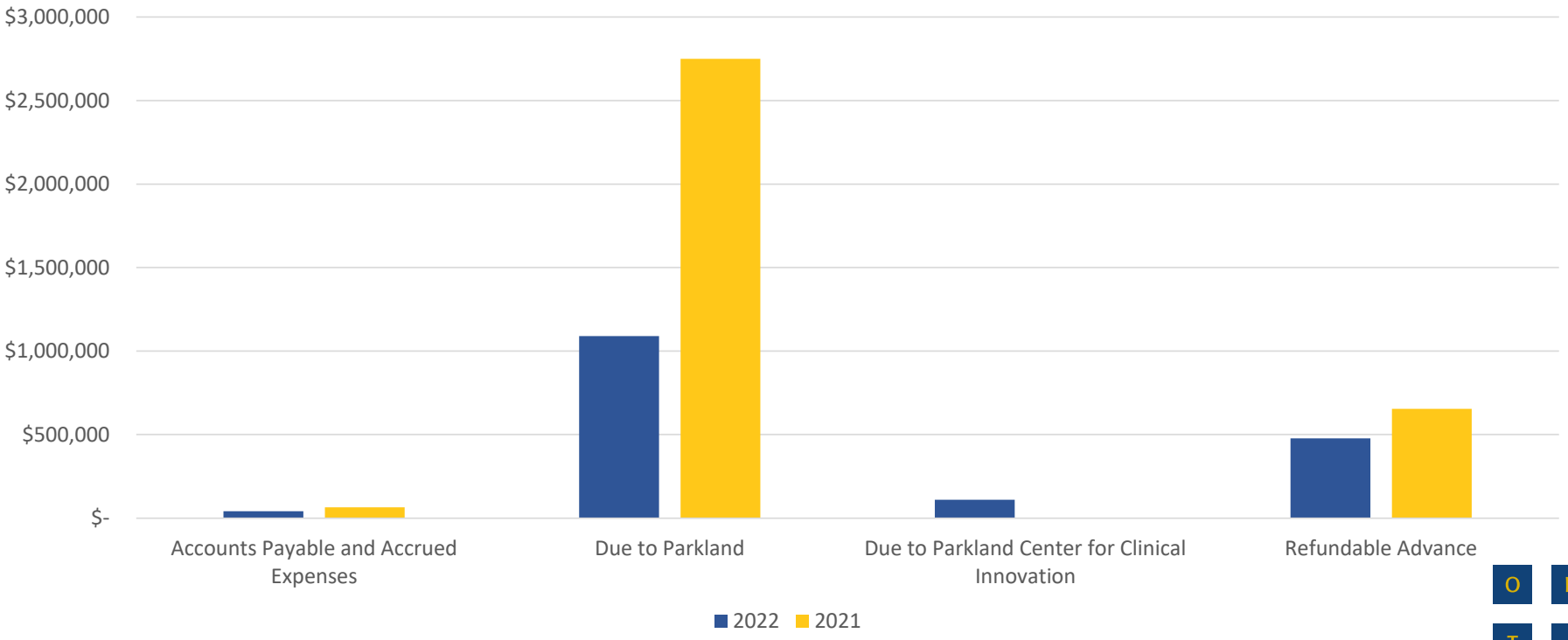
Stand FOR PARKLAND

Financial Statement Analysis: Liabilities
September 30,



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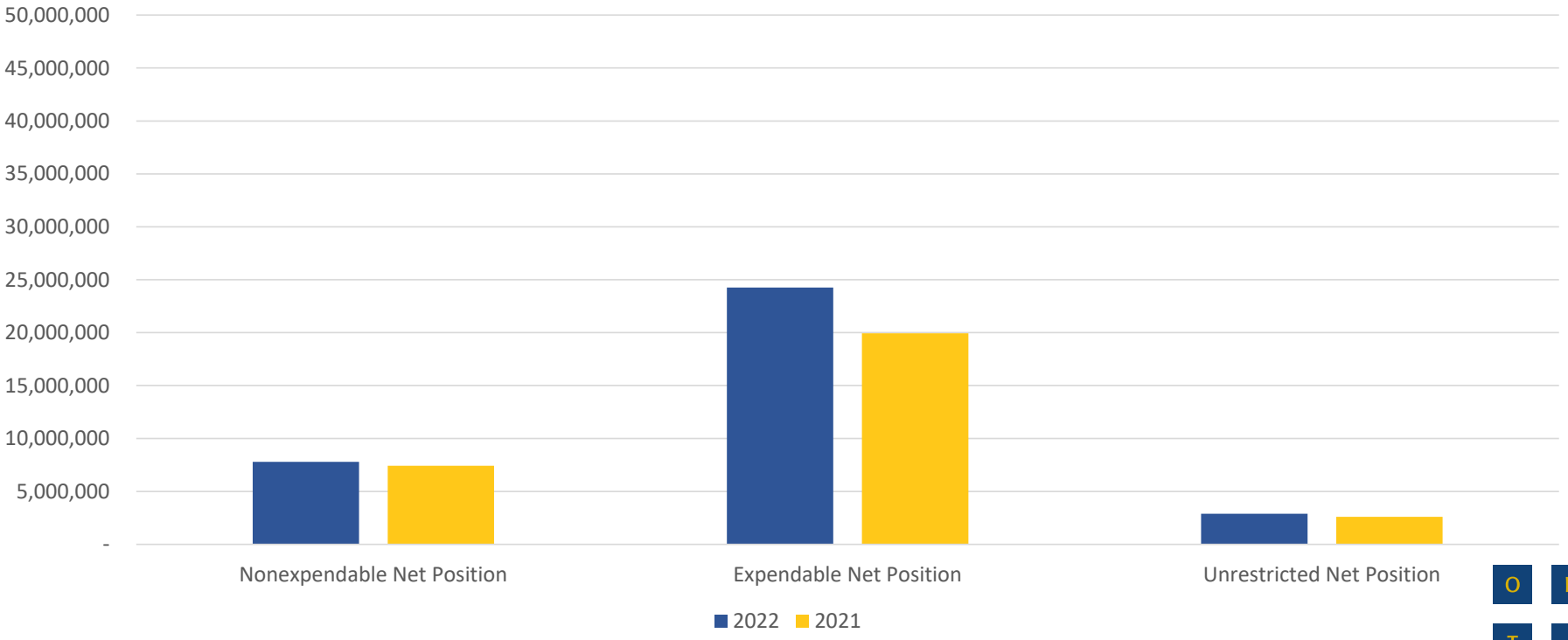
Stand FOR PARKLAND

Financial Statement Analysis: Net Assets
September 30,



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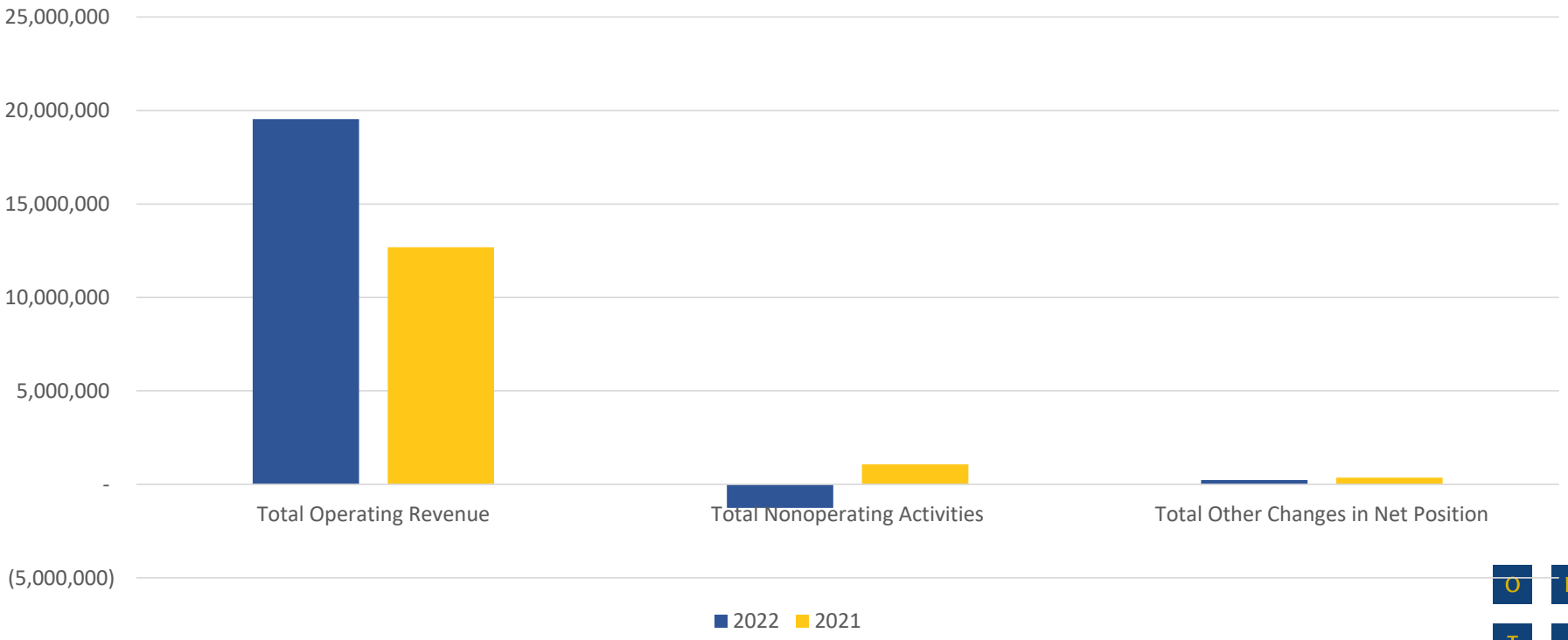
Stand FOR PARKLAND

Financial Statement Analysis: Revenues
September 30,



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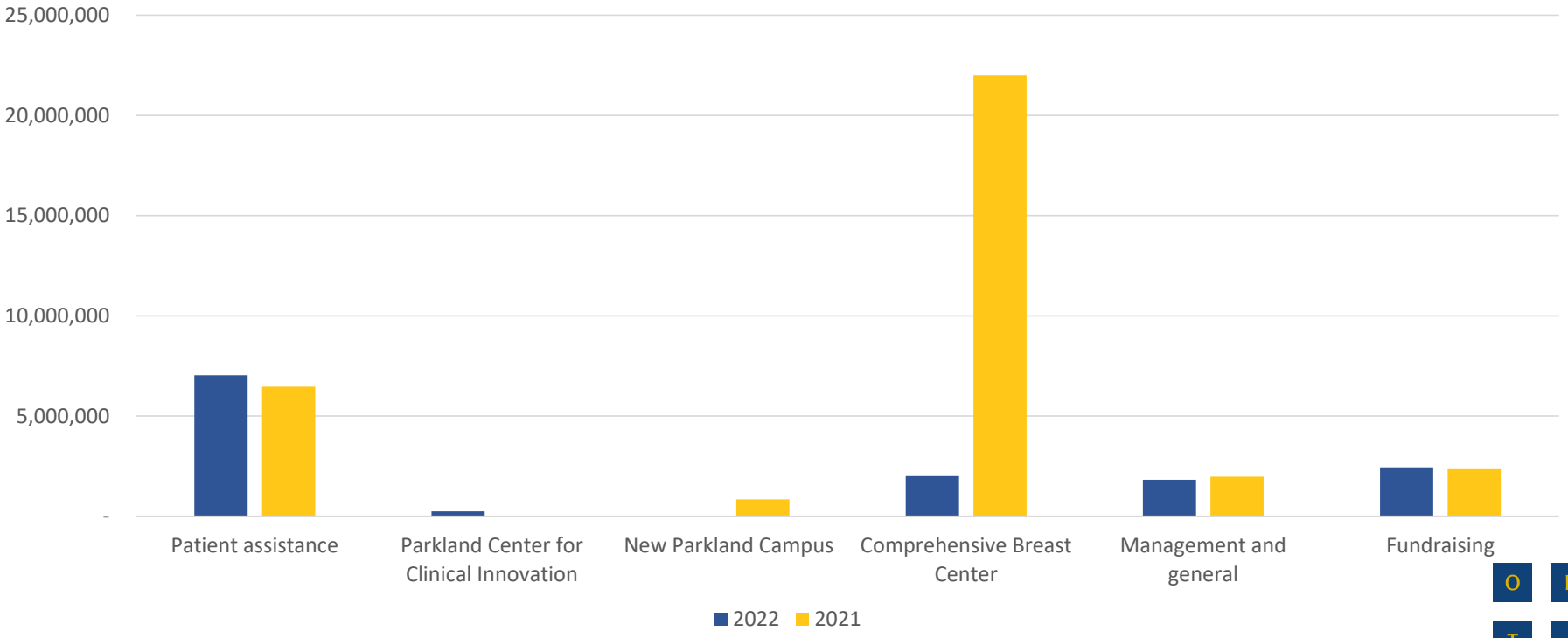
Financial Statement Analysis: Expenses
September 30,



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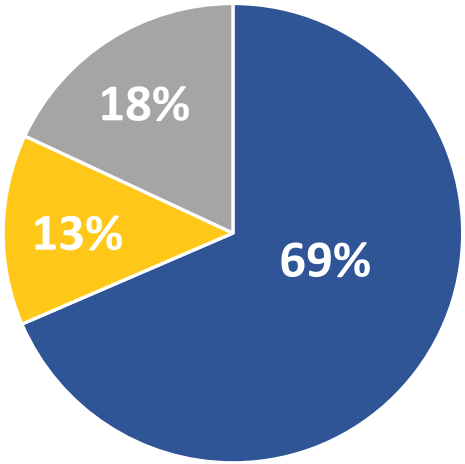
Stand FOR PARKLAND

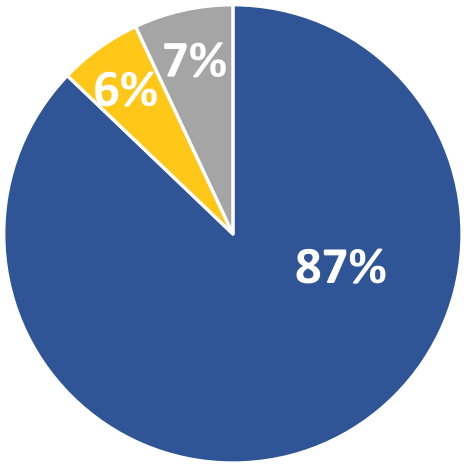
Functional Expenses Analysis
September 30,

2022



Total Support to Parkland Management and General Fundraising

2021



Total Support to Parkland Management and General Fundraising

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FORVIS

Parkland Health

2022 Audit Presentation

Presented by: Chris Clark, Partner

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Agenda

- Board of Managers – Required communications
- Financial results and key ratios
- New accounting standard
- Industry highlights

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

FORVIS' Responsibility & Opinion

Financial Statement Audit

- Draft report is presented for board consideration
- Audit procedures are complete
- FORVIS is prepared to issue an unmodified opinion
- No material weaknesses or significant deficiencies

Grant Compliance Audit

- Testing to be completed in Q1 of calendar 2023

FORVIS received full cooperation and assistance from the management and finance teams in completing the audit engagement.

FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office

Audit Risk Areas & Key Disclosures

Significant Judgments & Accounting Estimates

- Third-party reimbursements
- Allowances for contractual adjustments and uncollectible accounts
- Employee health and workers' compensation liability
- Professional and general liability
- Allowance for uncollectible property taxes
- Net pension asset/liability
- Provider relief funds

Financial Disclosures

- Medicaid reimbursement programs
- Property tax revenue
- Pension plans
- COVID-19 and CARES Act Funding

FORVIS 24

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Financial Statement Adjustments

- Audit Adjustments - Recorded
  - Property tax receivable and revenue
  - Net pension liability
  - Lease assets and lease liabilities
  - Balance sheet reclassifications

- Audit Adjustments – Passed
  - Decrease in employee health reserve, and related expense, based on actuarial analysis – Increase in change in net position of $3.7M
  - Increase in accounts receivable and accounts payable associated with QIPP nursing home program to consider IGT refunds - $3M net impact (balance sheet only)

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Statements of Revenues and Expenses

	Not Restated				
	2018	2019	2020	2021	2022
Net Patient Service Revenue	$ 1,017,559	$ 1,108,716	$ 1,148,716	$ 1,211,025	$ 1,275,141
Government programs	247,772	307,785	488,821	536,682	643,599
Other Revenue	150,045	162,608	190,848	222,308	218,210
	1,415,376	1,579,109	1,828,385	1,970,015	2,136,950
Expenses					
Salaries and employee benefits	1,109,700	1,141,080	1,263,380	1,363,451	1,516,493
Supplies and other	841,027	839,487	945,866	1,073,112	1,107,507
Depreciation and amortization	102,911	96,834	93,778	94,179	92,560
	2,053,638	2,077,401	2,303,024	2,530,742	2,716,560
Operating Loss	(638,262)	(498,292)	(474,639)	(560,727)	(579,610)
Property Tax Revenue	620,998	679,133	704,893	752,632	757,736
Interest Expense	(40,126)	(39,533)	(31,173)	(31,477)	(28,908)
Nonoperating Revenue & Other	53,074	64,017	109,475	128,194	86,282
Change in Net Position	$ (4,316)	$ 205,325	$ 308,556	$ 288,622	$ 235,500

NOTE: Condensed financial statements should be read in conjunction with the Independent Auditor's Report

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Balance Sheets

	Not Restated				
	2018	2019	2020	2021	2022
Current Assets					
Cash and short-term investments	$ 229,879	$ 355,241	$ 591,776	$ 560,472	$ 516,493
Restricted cash	23,610	80,150	75,497	86,561	57,445
Assets limited to use	55,071	87,473	128,699	159,800	296,072
Accounts receivable, net	132,916	166,285	167,308	177,852	176,993
Other current assets	98,574	96,197	128,495	332,011	454,004
	540,050	785,346	1,091,775	1,316,696	1,501,007
Noncurrent assets limited to use	60,236	64,890	64,807	64,792	14,950
Capital assets, net	1,548,553	1,529,388	1,621,949	1,632,302	1,623,222
Lease assets, net	-	-	-	50,849	41,049
Lease receivables					
Other assets	108,344	112,659	131,340	128,646	198,342
Deferred Outflows of Resources	30,619	108,287	200,934	167,090	140,167
	$ 2,287,802	$2,600,570	$3,110,805	$3,360,375	$3,518,737
Current liabilities	$ 325,428	$ 364,970	$ 440,512	$ 442,907	$ 451,626
Long-term debt	672,232	655,034	639,429	587,726	567,614
Lease liabilities, noncurrent	-	-	-	49,799	38,167
Other liabilities	394,472	511,226	597,097	490,562	399,893
Deferred Inflows of Resources	32,439	784	56,655	123,647	160,203
Net Position	863,231	1,068,556	1,377,112	1,665,734	1,901,234
	$ 2,287,802	$2,600,570	$3,110,805	$3,360,375	$3,518,737

This report should be read in conjunction with the Independent Auditor's Report and complete set of consolidated financial statements and related notes

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Industry Comparison

	Total Assets	Total Debt	NPSR + Supplemental	DCOH	Pension Funded Status	Cash to Debt %
Parkland	3,519,000	584,000	1,919,000	107	80.63%	170%
Harris	3,419,000	316,000	1,383,000	147	86.16%	526%
UHS	4,004,000	996,000	1,240,000	239	82.07%	141%
JPS	1,749,000	25,000	870,000	328	106.50%	4917%

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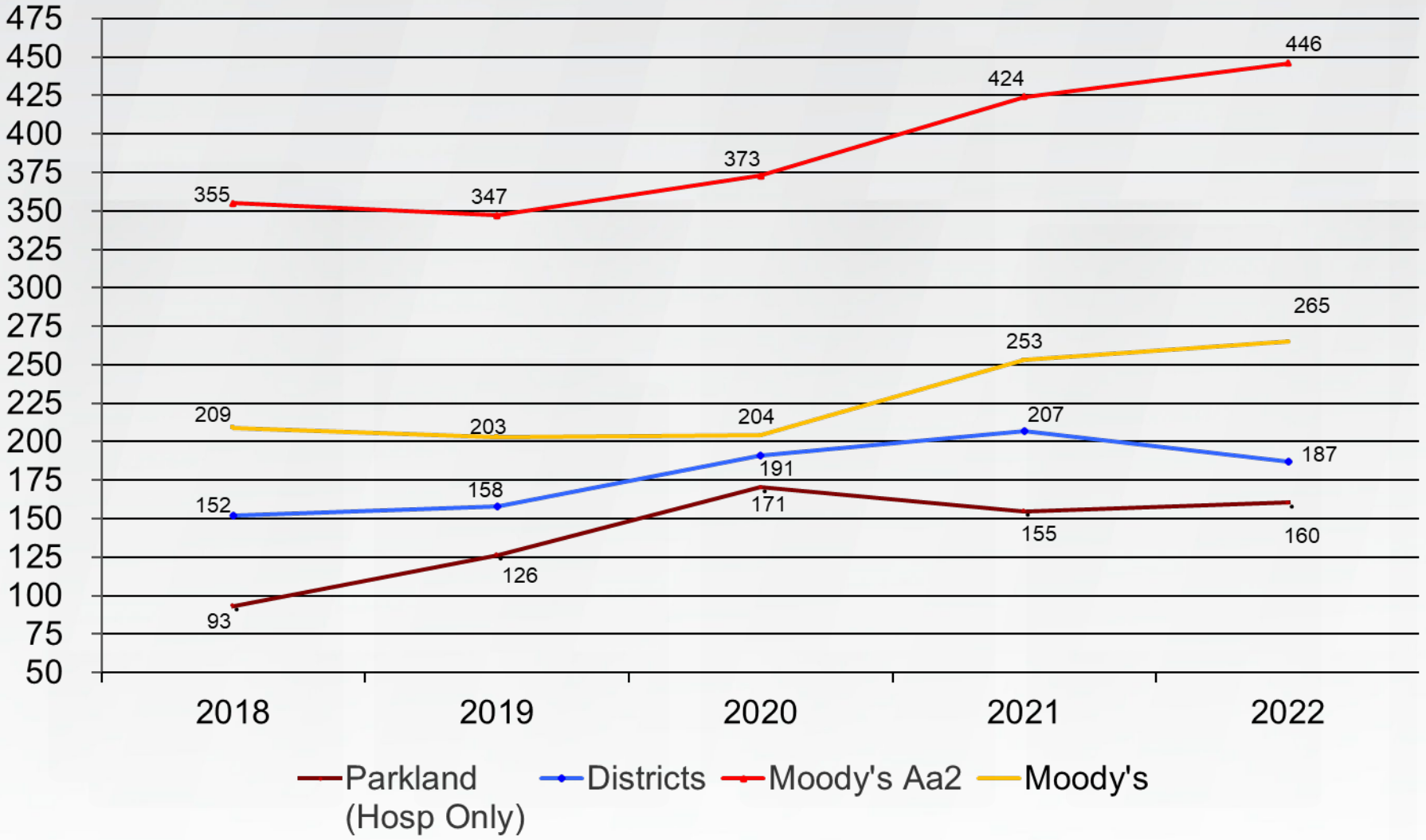
Days Cash on Hand



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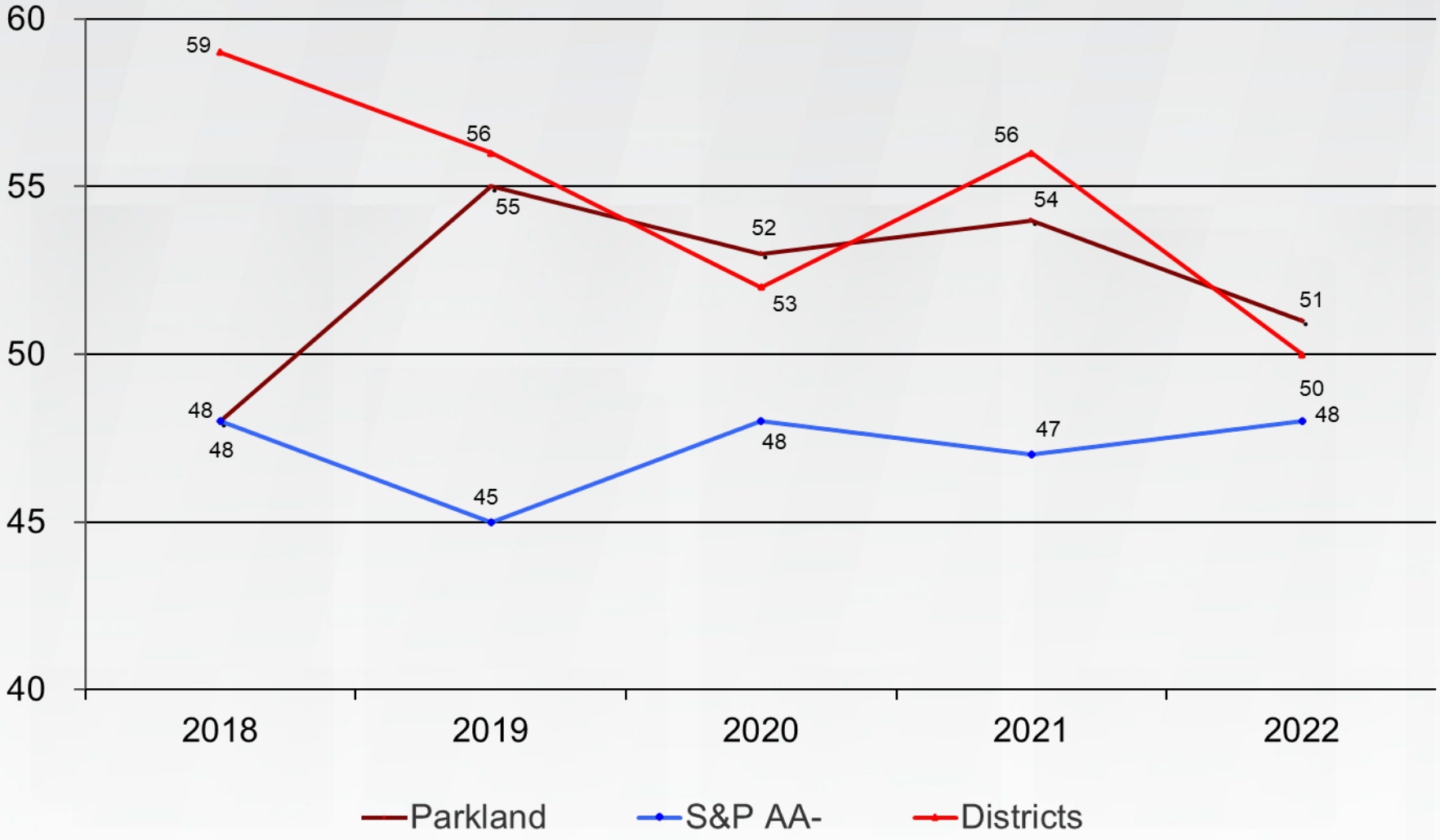
Days Revenue in Receivables



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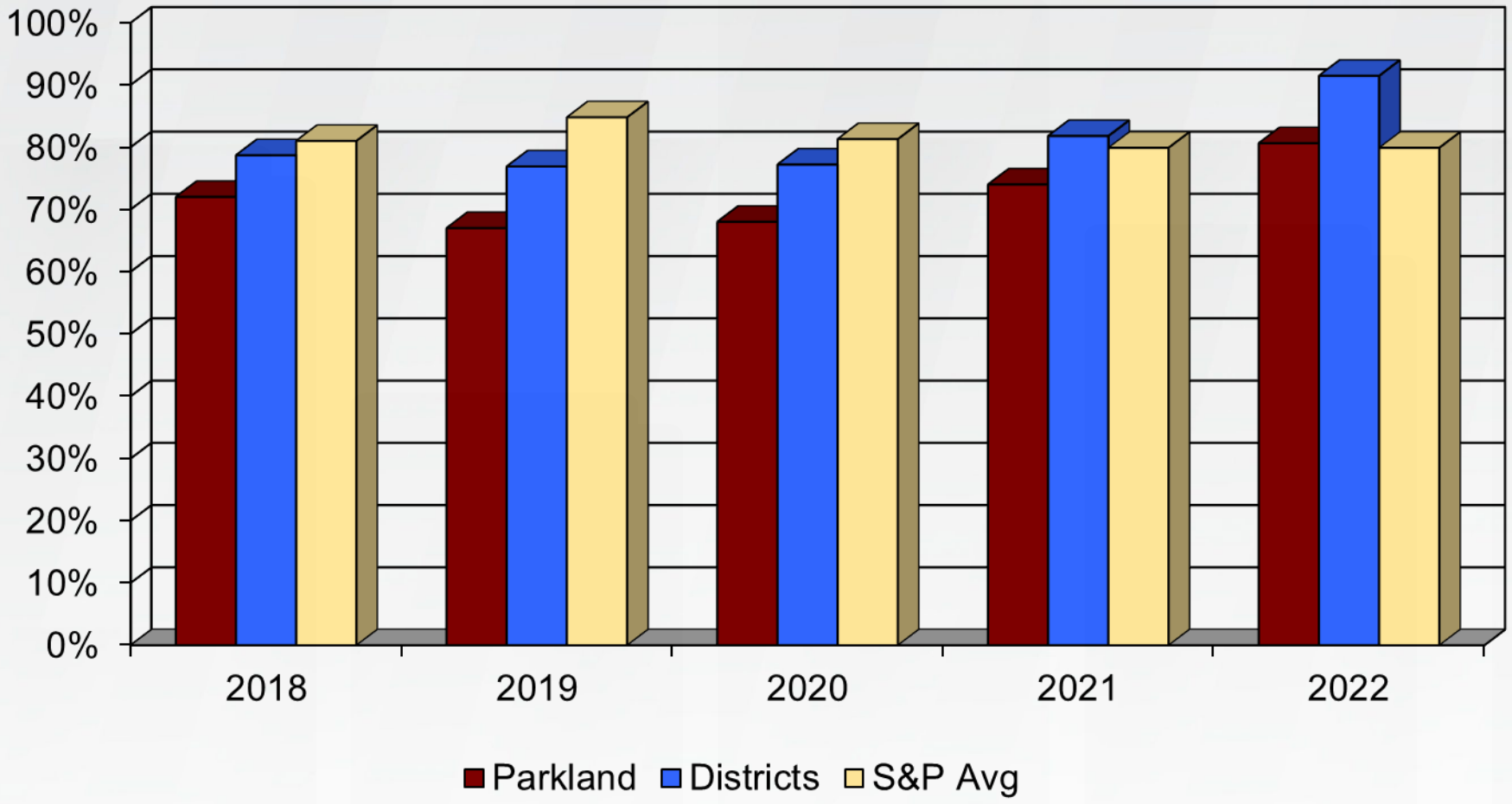
Pension Plan – Funded Status



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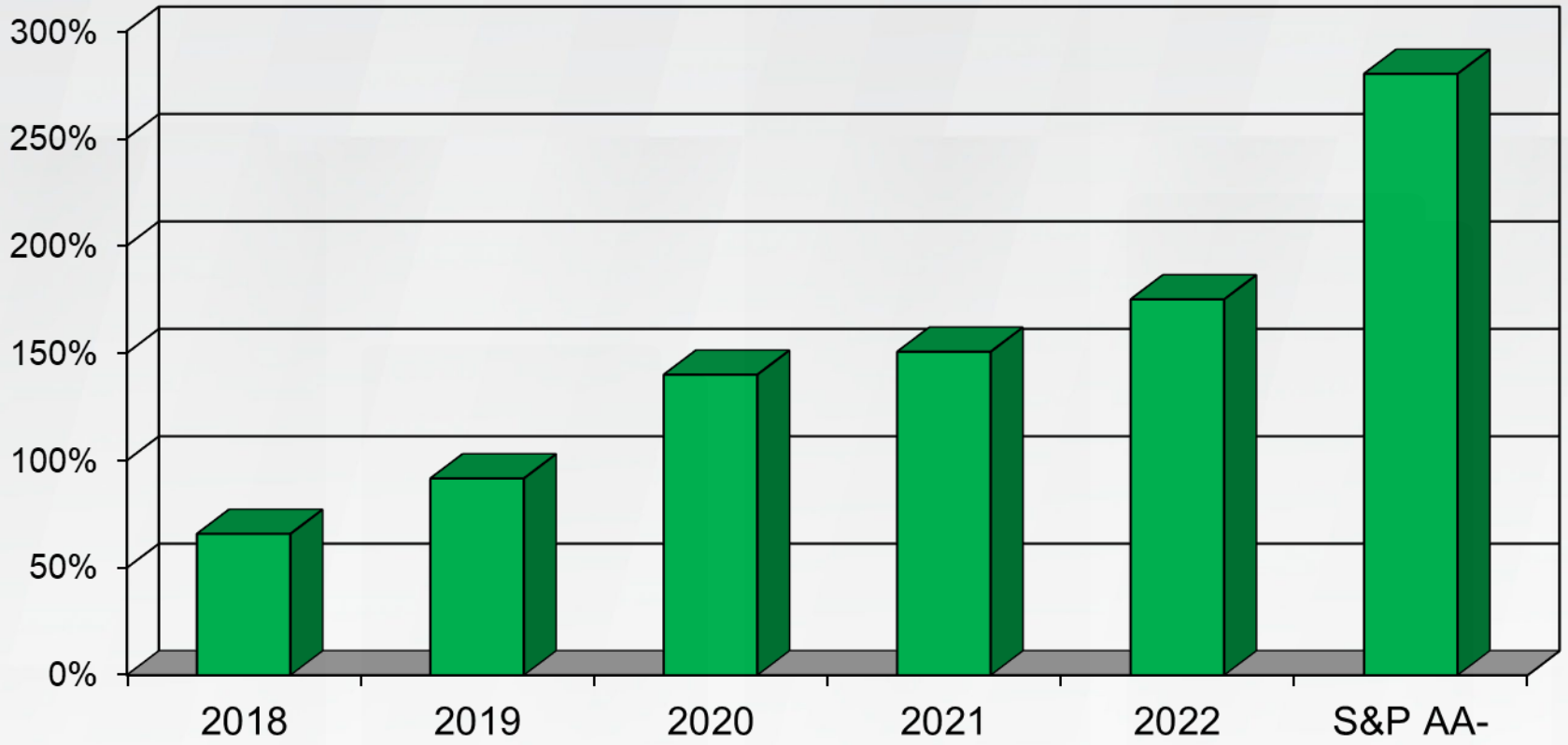
Cash to Debt Ratio



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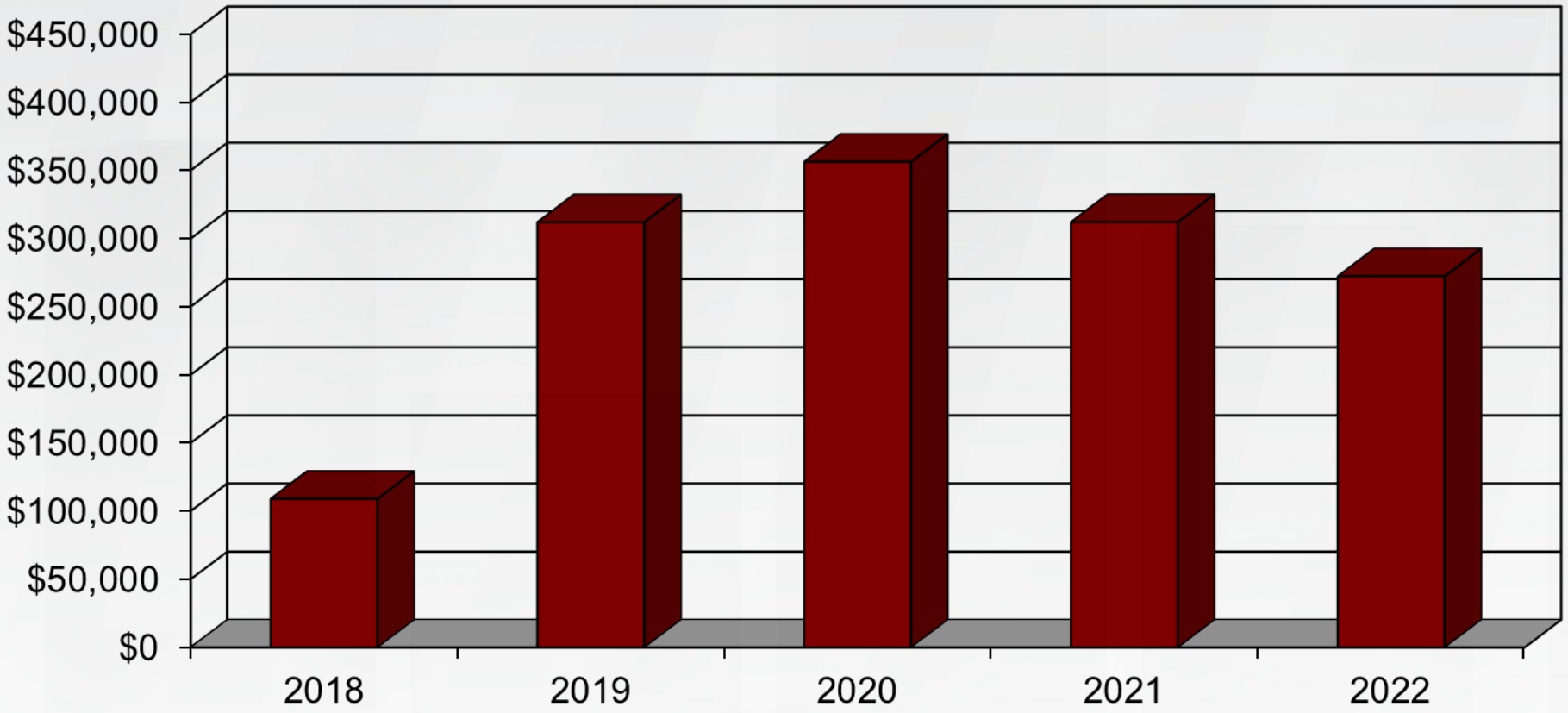
EBITDA



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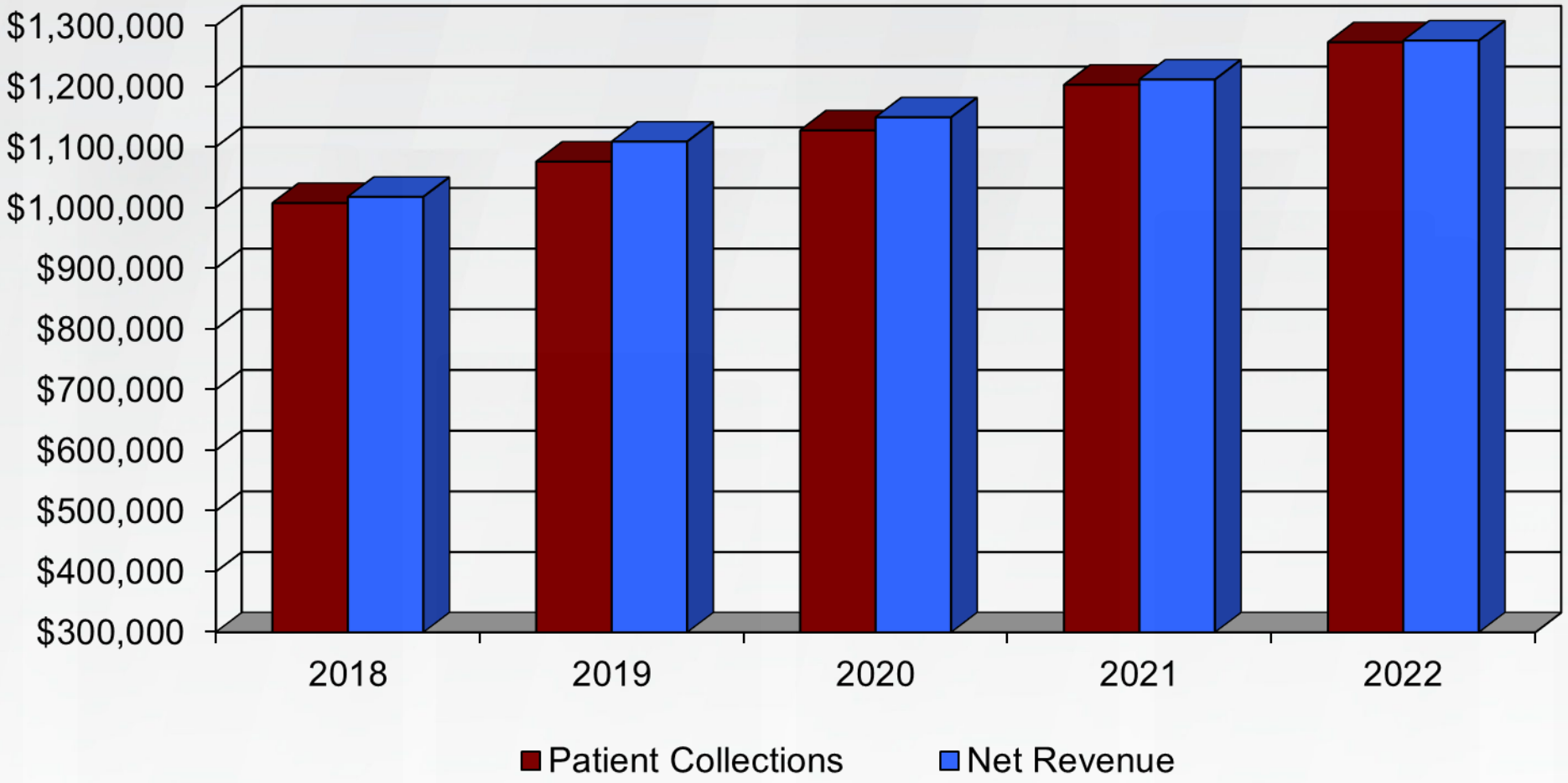
Cash Collections and Net Revenue



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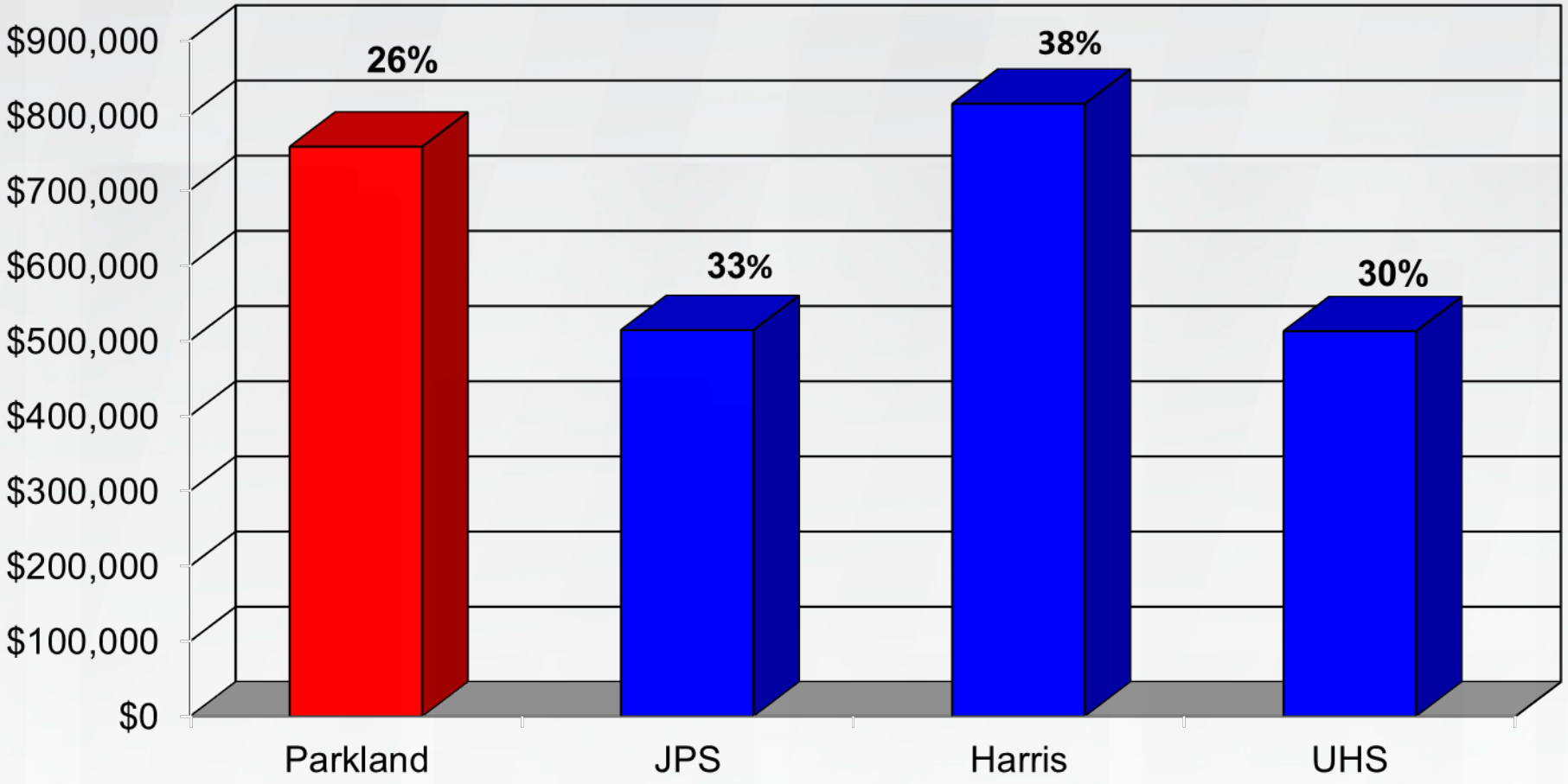
Property Tax Revenue

Property Tax as % of Support



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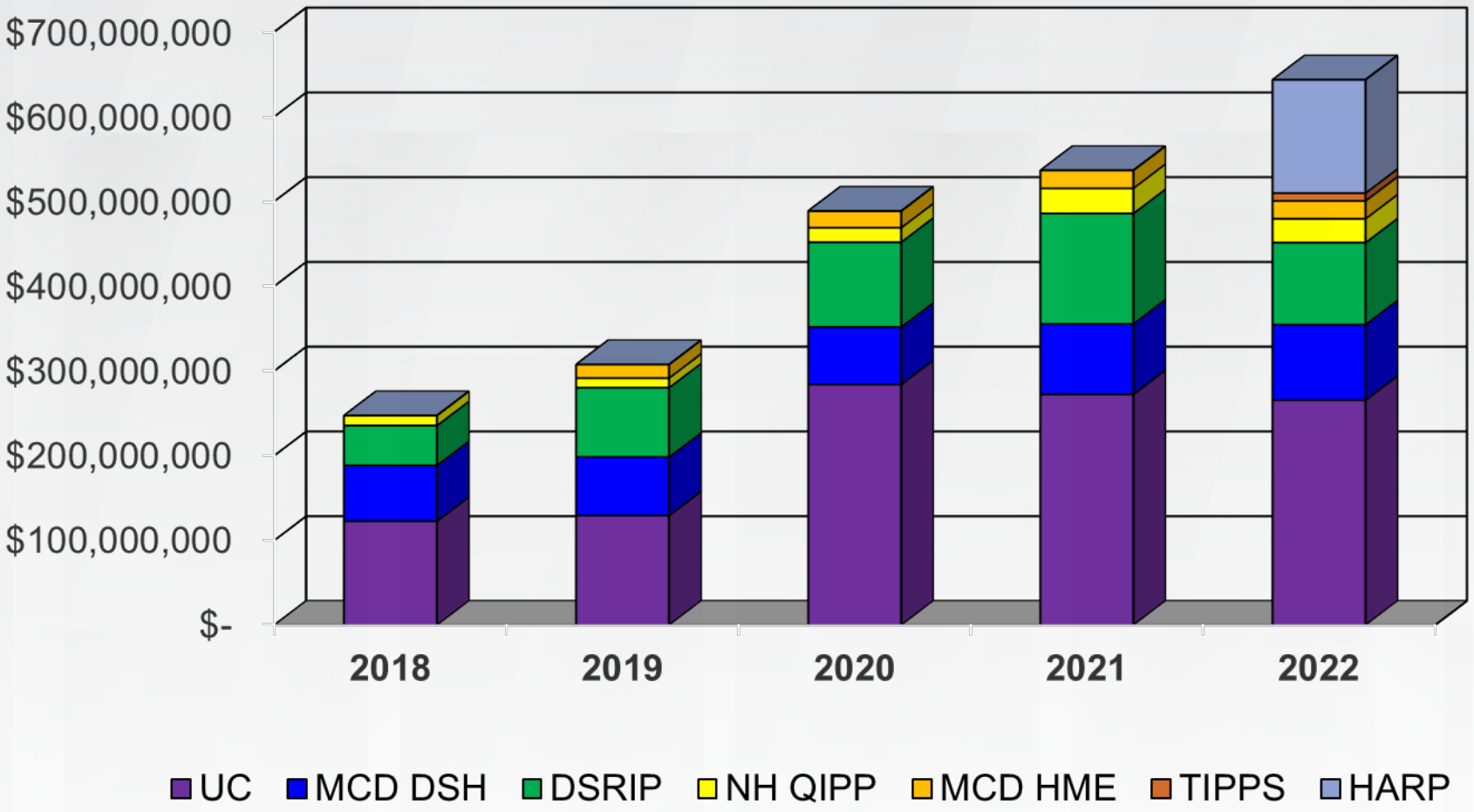
Medicaid Supplemental Funding



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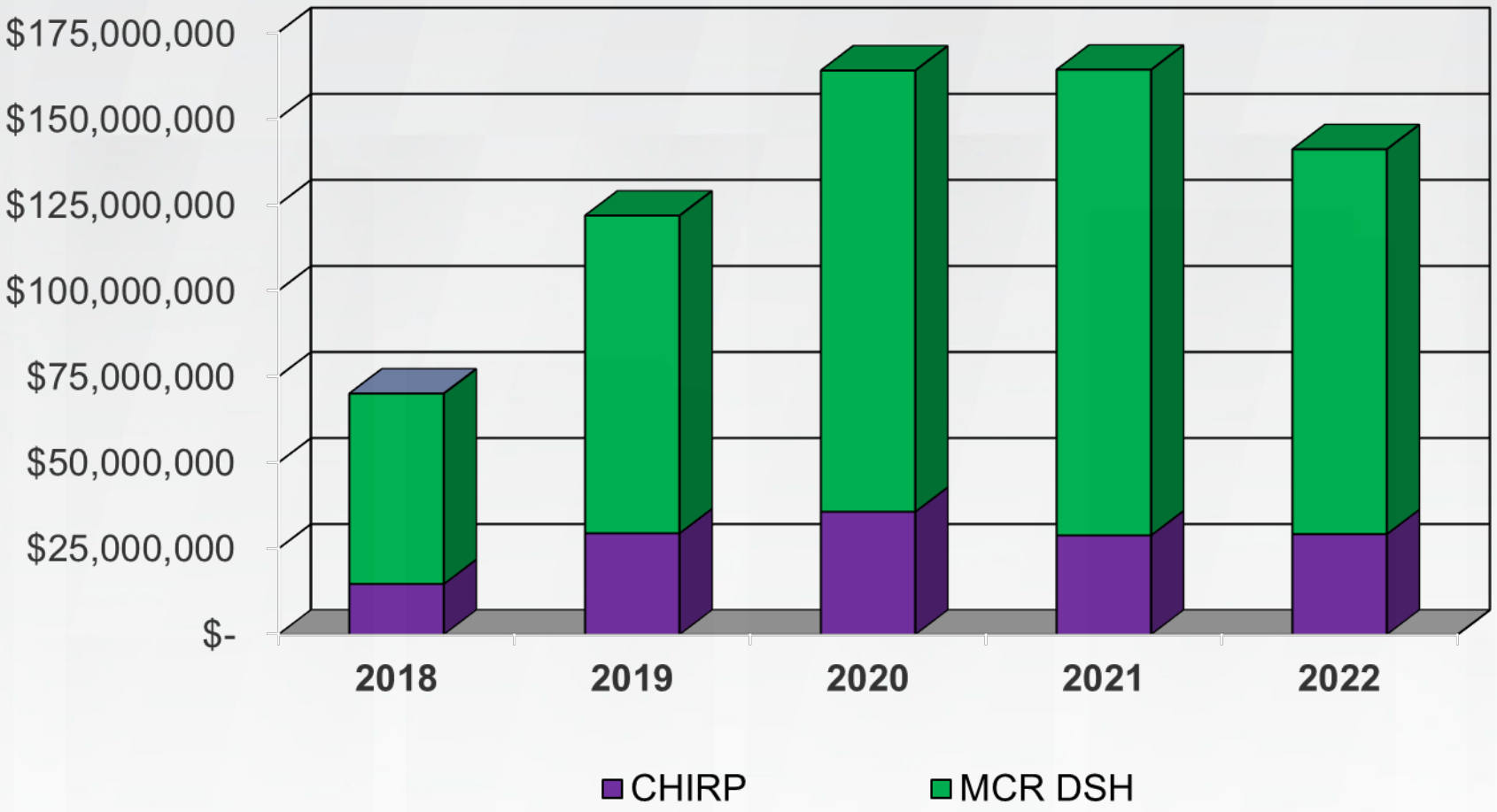
Supplemental Funding - NPSR



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New Accounting Standards

- GASB Statement No. 94 – Public-Private and Public-Public Partnerships and Availability Arrangements
  - Effective for the year ending September 30, 2023
- GASB Statement No. 96 – Subscription Based Information Technology Arrangement
  - Effective for the year ending September 30, 2023
- GASB Statement No. 101 – Compensated Absences
  - Effective for the year ending September 30, 2025

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Industry Highlights

- Post COVID Challenges
  - Staffing shortages
  - Wage pressures
  - Inflationary cost increases
  - End of Public Health Emergency declaration
- Supplemental Payment Programs Update
  - Waiver extension thru September 30, 2030
  - DSRIP sunset and expansion of Directed Payment Programs
  - UHRIP transition to CHIRP
  - Continued OIG scrutiny over the LPPF funding model

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Thank you!

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The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by FORVIS or the author(s) as to any individual situation as situations are fact specific. The reader should perform its own analysis and form its own conclusions regarding any specific situation. Further, the author(s) conclusions may be revised without notice with or without changes in industry information and legal authorities.
FORVIS has been registered in the U.S. Patent and Trademark Office, which registration is pending.

FORVIS

Assurance / Tax / Advisory

FORVIS

DRAFT

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas

Year Ended September 30, 2022

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Auditing & Accounting Matters

The purpose of this report is to summarize various matters relating to the September 30, 2022, audit of the business-type activities, the aggregate discretely presented component units and the aggregate fiduciary activities of Dallas County Hospital District d/b/a Parkland Health (Parkland), a component unit of Dallas County, Texas.

Audit of Financial Statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have issued an unmodified opinion as to whether the financial statements of Parkland as of and for the year ended September 30, 2022, are fairly presented, in all material respects.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Area	Results
Risk of Management Override of Controls	▪ No matters are reportable.
Revenue Recognition	▪ No matters are reportable.
Management Estimates:	
▪ Allowance for contractual and bad debt adjustments	• No matters are reportable.
▪ Third-party payer settlement estimates, including settlements associated with supplemental Medicaid funding programs	• No matters are reportable.
▪ Reserve for employee health and workers' compensation obligations	• No matters are reportable.
▪ Reserve for professional and general liability risks	• No matters are reportable.
▪ Property tax receivable and tax revenue	• An adjustment was proposed and recorded to properly value property tax receivables.
▪ Net pension liability and related deferred inflows and outflows of resources	• An adjustment was proposed and recorded to properly value the net pension liability.
▪ Provider Relief Funds	• No matters are reportable.
Adoption of GASB Statement No. 87, Leases	An adjustment was proposed and recorded to restate the 2021 financial statements and properly value lease assets and lease obligations at October 1, 2021.
Economic Risk	Estimates were evaluated as described more fully on page 4.

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, liabilities, revenues, and expenses are "estimated" based on management's assumptions about future outcomes. Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management's estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements. The following are considered to be significant estimates for Parkland:

- **Third-party Reimbursements** – Net operating revenues include management's estimates of amounts to be reimbursed by third parties. Amounts received for patient billings are generally less than amounts billed. The difference between what is billed and expected to be received is recorded through contractual adjustments. Additionally, certain amounts owed by third-parties are paid upon submission of annual cost reports which are then subject to audit by administrative contractors and management records estimates related to these payments.

  Management's process of estimating amounts to be received from third parties requires estimation based on payer classification, historical data, and payer contract provisions. Estimates of third-party reimbursements also include management assumptions about uncertainties in health care reform, payer mix, and state of the economy.

  Net operating revenues also include estimated amounts due from the Medicaid disproportionate share program, the Medicaid Uncompensated Care Pool and other supplemental payment programs. These estimates are based on historical and subsequent funding and include an allowance for recoupment upon final settlement of the allocation.

- **Allowance for Doubtful Accounts** – Primary collection risks related to patient accounts receivable include uninsured patients and patient balances where the insurance payer did not pay the entire balance. Management's estimate for allowance for doubtful accounts is based on historical collection rates, payer mix, and anticipated trends. Similar to third-party reimbursements, management's assumptions about the economy, and types of payers affect the estimation of allowance for doubtful accounts.

- **Employee Health and Workers' Compensation Risk** – Reserves for employee health and workers compensation claims are based on estimates of known claims and estimates for incurred but not reported claims. Management estimates the liability based on specific claim facts and historical claims trends. Management also utilizes a valuations provided by an independent actuary.

- **Professional and General Liability Risks** – Management records an estimate of a liability based on a valuation provided by an independent actuary. The estimate is based on known claims, claims history, and industry specific experience. Management reviews the estimate for the reasonableness of assumptions used in the development of the estimate by the actuary.

- **Allowance for Uncollectible Property Taxes** – Management records an estimate of uncollectible property taxes using historical collection and adjustment trends and assumptions about any other uncertainties that could materially impact the collection rate.

- **Net Pension Liability** – Management records an estimate of the net pension liability based on a valuation provided by an independent actuary. This estimate is based on demographic information of plan participants and the net position of the plan. Management reviews the estimate for the reasonableness of assumptions used in the development of the estimate by the actuary.

- **Provider Relief Funds** – Parkland is a recipient of distributions from the Provider Relief Fund established by the *Coronavirus Aid, Relief and Economic Security (CARES) Act*. Parkland attested to the terms and conditions upon receipt of the funding, including the requirement to demonstrate that funds received have been used for health care-related expenses or lost revenue attributable to coronavirus as defined in the CARES Act. Based on guidance issued by the U.S. Department of Health and Human Services (HHS) as of September 30, 2022, management recognized revenue from the Provider Relief Fund based on lost revenues measured on a quarterly basis, as defined by the "General and Targeted Distribution Post-Payment Notice of Reporting Requirements" guidance issued by HHS on June 11, 2021.

Required Communications

Significant Accounting Policies

- Parkland's significant accounting policies are described in *Note1* of the audited financial statements.

Alternative Accounting Treatments

- No matters are reportable.

Significant Unusual Transactions

- No matters are reportable.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Section 1115(a) Medicaid Waiver Program, Medicaid DSH Program and other Medicaid supplemental payment programs
- Uniform Hospital Rate Increase Program (UHRIP) and Comprehensive Hospital Increased Reimbursement Program (CHIRP)
- Property tax revenue
- Pension plans
- COVID-19 and CARES Act Funding

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Proposed Audit Adjustments Recorded

Adjustments were proposed and recorded in the following areas:

- Property tax receivable and revenue
- Net pension liability
- Accounts payable and prepaid expenses
- Lease assets and lease liabilities
- Capital assets and accrued liabilities
- Cash and investments

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.

Certain reclassifications were also made for reporting purposes and management also made adjustments throughout the audit process based on information that became available subsequent to year end.

Auditor's Judgment About the Quality of Parkland's Accounting Principles

- No matters are reportable.

Significant Issues Discussed with Management

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- COVID-19 and CARES Act Funding
- Supplemental Medicaid Funding

Other Material Written Communications

- Management representation letter *(Tab 2)*
- Proposed audit adjustments not recorded schedule *(Tab 3)*
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

New Accounting Standards

GASB Statement No. 87, *Leases*

Effective October 1, 2021, Parkland adopted GASB Statement No. 87, *Leases*. GASB 87 creates one model for recognizing leases for both lessees and lessors. Substantially all leases are recognized on the lessees' statement of net position. In the activity statement, lessees no longer report rent expense for the previously classified operating leases but instead report interest expense on the liability and amortization expense related to the asset. Lessors recognize a lease receivable and corresponding deferred inflow of resources. Interest income associated with the receivable are recognized using the effective interest method.

Adoption of GASB 87 required significant time to identify a complete list of lease contracts for consideration of adoption and measure the lease assets and liabilities for recognition. At October 1, 2020, Parkland recognized $41.6 million in lease assets, $45.2 million in lease liabilities, $4.6 million in lease receivables, and $4.5 million in deferred inflows of resources as a result of the adoption of GASB 87. The adoption of GASB 87 had no impact on net position as of October 1, 2020.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in subscription assets – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas

Independent Auditor's Report and Financial Statements

September 30, 2022 and 2021

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
September 30, 2022 and 2021

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Independent Auditor's Report

The Board of Managers
Dallas County Hospital District
d/b/a Parkland Health
Dallas, Texas

Opinions

We have audited the financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary activities of Dallas County Hospital District d/b/a Parkland Health (Parkland), collectively a component unit of Dallas County, Texas, as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Parkland's basic financial statements as listed in the table of contents.

We did not audit the financial statements of the Foundation, a discretely presented component unit of Parkland, which represents 10.9 percent and 12.4 percent of the total assets, 22.6 percent and 23.5 percent of the net position and 2.6 percent and 1.8 percent of the revenues of the aggregate discretely presented component units as of and for the years ended September 30, 2022 and 2021, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

In our opinion, based on our audits and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of Parkland, the aggregate discretely presented component units, and the fiduciary activities of Parkland, as of September 30, 2022 and 2021, and the respective changes in financial position and, where applicable, cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. The financial statements of Parkland Community Health Plan, Inc. (Health Plan) and Parkland Foundation (Foundation), discretely presented component units of Parkland, and Dallas County Hospital District Retirement Income Plan (Pension Plan), a fiduciary fund of Parkland, were not audited in accordance with *Government Auditing Standards*. We are required to be independent of Parkland, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, on October 1, 2021, Parkland adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Parkland's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Parkland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Parkland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dallas, Texas
January __, 2023

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Management's Discussion and analysis
Years Ended September 30, 2022 and 2021

Introduction

Our discussion and analysis of Parkland Health ("Parkland") financial performance (excluding affiliates) provides an overview of the financial activities for the fiscal years that ended on September 30, 2022 ("FY22") and 2021 ("FY21"). Please use in conjunction with Parkland's basic financial statements.

The 2020 balances included in this management discussion and analysis have not been restated to reflect the adoption of GASB Statement No. 87, *Leases* (GASB 87) adopted by Parkland on October 1, 2021 and presented retrospectively to October 1, 2020.

2022 Highlights

There were many significant accomplishments in 2022 that positively impacted patient care:

Quality, Safety, Outcomes & Efficiencies

- **Recognitions & Awards**
    - Parkland earned a Certificate of re-Designation as a Level 1 Comprehensive stroke Facility by the Texas Department of State Health Services.
    - Parkland was reverified as a Level I Trauma Center by the Verification Review Committee, an ad hoc committee of the Committee on Trauma of the American College of Surgeons.
    - The RedBird Health Center, one of Parkland's Community Oriented Primary Care health centers, was renamed "C.V. Roman Health Center" in honor of Dr. Roman's contributions to healthcare in Dallas County.
    - Parkland delivers 12,000 babies a year, one of the highest rates in the country, and many of its patients are uninsured. Despite the obstacles, 97 percent of patients who deliver at Parkland receive prenatal care. The health system's 11 women's health centers and comprehensive care help provide for those who need it most.
    - Parkland's extending Maternal Care After Pregnancy (eMCAP) program was nationally recognized by winning the Department of Health and Human Services (HHS) Racial Equity in Postpartum Care Challenge, a national competition launched by the HHS Office on Women's Health and the Centers for Medicare and Medicaid Services.

Financial Highlights

- Net position increased $235.5 million between FY21 and FY22. Net position increased $288.6 million between FY20 and FY21.

- Total assets and deferred outflows of resources increased $158.4 million (4.7%) between FY21 and FY22 due to overall increases in cash and investments and timing of cash receipts related to governmental programs. Total assets and deferred outflows of resources increased $249.6 million (8.0%) between FY20 and FY21 due to overall increases in reimbursement for patient services, property tax revenues and timing of cash receipts related to governmental programs.

Financial Analysis

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position:

These statements report information about Parkland's resources and its activities that describe the financial results of the fiscal years presented, and Parkland's financial position at the end of each year.

Net position is the difference between assets, deferred inflows and outflows, and liabilities. Over time, increases or decreases in Parkland's net position are one indicator of whether Parkland's financial health is improving or deteriorating. Other non-financial factors, such as changes in Parkland's patient base; measures of the quality of services provided; and local, state, and federal economic factors are also considered.

Table 1: Summary Statement of Net Position

	2022	2021 (As Restated)	Dollar Change	Percentage Change
Assets				
Current assets	$ 1,501,007	$ 1,316,696	$ 184,311	14.0%
Capital assets, net	1,623,222	1,632,302	(9,080)	-0.6%
Lease assets, net	41,049	50,849	(9,800)	-19.3%
Noncurrent assets and deferred outflows of resources	353,459	360,528	(7,069)	-2.0%
Total assets and deferred outflows of resources	$ 3,518,737	$ 3,360,375	$ 158,362	4.7%
Liabilities				
Long-term debt outstanding	$ 584,024	$ 603,351	$ (19,327)	-3.2%
Lease liabilities	45,465	56,431	(10,966)	-19.4%
Other liabilities and deferred inflows of resources	988,014	1,034,859	(46,845)	-4.5%
Total liabilities and deferred inflows of resources	1,617,503	1,694,641	(77,138)	-4.6%
Net Position				
Net investment in capital assets	1,029,855	1,021,376	8,479	0.8%
Restricted	2,588	3,270	(682)	-20.9%
Unrestricted	868,791	641,088	227,703	35.5%
Total net position	1,901,234	1,665,734	235,500	14.1%
Total liabilities, deferred inflows of resources and net position	$ 3,518,737	$ 3,360,375	$ 158,362	4.7%

	2021 (As Restated)	2020	Dollar Change	Percentage Change
Assets				
Current assets	$ 1,316,696	$ 1,091,775	$ 224,921	20.6%
Capital assets, net	1,632,302	1,621,949	10,353	0.6%
Lease assets, net	50,849	-	50,849	100.0%
Noncurrent assets and deferred outflows of resources	360,528	397,081	(36,553)	-9.2%
Total assets and deferred outflows of resources	$ 3,360,375	$ 3,110,805	$ 249,570	8.0%
Liabilities				
Long-term debt outstanding	$ 603,351	$ 654,359	$ (51,008)	-7.8%
Lease liabilities	56,431	-	56,431	100.0%
Capital leases	-	12,467	(12,467)	100.0%
Other liabilities and deferred inflows of resources	1,034,859	1,066,867	(32,008)	-3.0%
Total liabilities and deferred inflows of resources	1,694,641	1,733,693	(39,052)	-2.3%
Net Position				
Net investment in capital assets	1,021,376	932,743	88,633	9.5%
Restricted	3,270	6,668	(3,398)	-51.0%
Unrestricted	641,088	437,701	203,387	46.5%
Total net position	1,665,734	1,377,112	288,622	21.0%
Total liabilities, deferred inflows of resources and net position	$ 3,360,375	$ 3,110,805	$ 249,570	8.0%

Overall, total assets and deferred outflows of resources increased 4.7% from 2021 to 2022 and increased 8.0% from 2020 to 2021.

- Current assets increased $184,311 or 14.0% from 2021 to 2022 due, primarily, to an overall increase in governmental program receivables ($123,266 or 56%) related to timing of cash receipts from these programs in 2022. Assets limited to use, current portion, increased ($136,272 or 85%) from 2021 to 2022 due to an increase in amounts internally designated for capital purchases in 2022. Current assets increased $224,921 or 20.6% from 2020 to 2021 due to an overall increase in government program receivables of $191,123 or 648.1%. Cash decreased $19,505 or 3.5% from 2020 to 2021 due to Parkland's continued investment in capital assets in 2021. Assets limited to use, current portion, increased $31,101 or 24.2% from 2020 to 2021 due to an increase in amounts internally designated for capital purchases in 2021. Due from third-party reimbursement programs increased $10,867 or 64.2% from 2020 to 2021 due to amounts due from Medicare for the 2021 cost report settlement.

- Capital assets, net, decreased $9,080 or 0.6% from 2021 to 2022 primarily due to disposals of capital assets during the year and the adoption of GASB 87. Capital assets, net, increased $10,353 or 0.6% from 2020 to 2021 primarily due to construction in progress throughout the year.

- Noncurrent assets and deferred outflows of resources decreased $7,069 or 2.0% from 2021 to 2022 due primarily to the current classification of asset limited to use expected to be used for capital acquisitions in 2023 and changes in the deferred inflows associated with pensions. Noncurrent assets and deferred outflows of resources decreased $36,553 or 9.2% from 2020 to 2021 due to adoption of GASB Statement No. 87, *Leases*, as discussed in *Note 1*.

- Liabilities and deferred inflows of resources decreased $77,138 or 4.6% from 2021 to 2022 due to a reduction in the intergovernmental transfer obligation and the net pension liability. Liabilities and deferred inflows of resources decreased $39,052 or 2.3% from 2020 to 2021 due to the recognition of previously unearned Provider Relief Funds, decrease in the net pension liability, and defeasance of the 2013 bonds during 2021.

Table 2: Summary of Revenues, Expenses and Changes in Net Position

	2022	2021 (As Restated)	2020
Operating revenues:			
Net patient services	$ 1,275,141	$ 1,211,025	$ 1,148,716
Government programs	643,599	536,682	488,821
Other	218,210	222,308	190,848
Total operating revenues	2,136,950	1,970,015	1,828,385
Operating expenses:			
Salaries, wages, and benefits	1,516,493	1,363,451	1,263,380
Purchased medical services	284,646	295,414	250,237
Supplies and other	536,634	518,147	456,977
Pharmaceuticals	286,227	259,551	238,652
Depreciation and amortization	92,560	94,179	93,778
Total operating expenses	2,716,560	2,530,742	2,303,024
Operating loss	(579,610)	(560,727)	(474,639)
Nonoperating revenues and expenses, net	812,629	822,107	769,488
Capital contributions	2,481	27,242	13,707
Change in net position	235,500	288,622	308,556
Net position – beginning of year	1,665,734	1,377,112	1,068,556
Net position – end of year	$ 1,901,234	$ 1,665,734	$ 1,377,112

Overall, operating revenues increased 8.5% from 2021 to 2022 and 7.7% from 2020 to 2021.

- Net patient services revenue increased 5.3% and 5.4% during the years ended September 30, 2022 and 2021, respectively, due to increase in volumes during the years and increased Medicaid reimbursement through the Uniform Hospital Rate Increase Program (UHRIP) and the Comprehensive Hospital Increase Reimbursement Program (CHIRP), discussed more fully in *Note 1*.

- Government program revenue increased $106,917 or 19.9% in 2022 over 2021 due to the Hospital Augmented Reimbursement Program (HARP). Government programs revenue increased $47,861 or 9.8% in 2021 over 2020 due to increases in Medicaid disproportionate share reimbursement and Delivery System Reform Incentive Payments (DSRIP).

- Other operating revenues decreased $4,098 or 1.8% in 2022 over 2021. Other operating revenues increased $31,460 or 16.5% in 2021 over 2020 due to reimbursement received from Dallas County for Parkland's operations of COVID testing sites. This revenue decreased by $4,533 or 26% in 2022.

Operating expenses increased $185,818 or 7.3% from 2021 to 2022 and $227,718 or 9.9% from 2020 to 2021.

- Salaries, wages, and benefits increased $153,042 or 11.2% from 2022 to 2021 primarily due to increase in labor rates and contract labor driven by staffing constraints during the year. Salaries, wages, and benefits increased by $100,071 or 7.9% from 2020 to 2021 primarily due to increase in wages and staffing needs due to a full year of operations under the COVID-19 pandemic in 2021 as compared to six months in 2020.

- Pharmaceuticals increased $26,676 or 10.3% between 2021 and 2022 and $20,899 or 8.8% between 2020 and 2021 primarily due to increased pricing from vendors due to impact on supply chain from COVID-19 pandemic.

Overall, Parkland's operating loss increased $18,883 or 3.4% from 2021 to 2022 and increased $86,088 or 18.1% from 2020 to 2021 due to the items mentioned above. As the only public hospital in Dallas, Parkland receives ad valorem tax revenues to subsidize the cost of services provided to uninsured patients who qualify for tax-supported care. Although the expenses incurred to provide these services are recognized as operating expenses, accounting principles generally accepted in the United States of America ("GAAP") require that ad valorem tax revenues be reported as nonoperating revenues.

Nonoperating revenues and expenses decreased $9,478 or 1.2% from 2021 to 2022 and increased $52,619 or 6.8% from 2020 to 2021. These changes were primarily driven by changes in ad valorem tax revenues and the timing of recognition of Provider Relief Funds.

Hospital Patient Volumes

Patient volumes at Parkland are measured on an inpatient and outpatient basis. Changes in volumes for the years ending September 30, are as follows:

	2022	2021	Change	Percentage Change
Inpatient discharges	33,793	33,461	332	1.0%
Emergency services visits	235,435	227,630	7,805	3.4%
Outpatient visits	1,213,316	1,171,953	41,363	3.5%

	2021	2020	Change	Percentage Change
Inpatient discharges	33,461	34,780	(1,319)	-3.8%
Emergency services visits	227,630	224,390	3,240	1.4%
Outpatient visits	1,171,953	1,035,119	136,834	13.2%

Table 3: Capital and Lease Assets

At the end of fiscal years 2022 and 2021, Parkland had $1.66 billion and $1.68 billion, respectively, in capital and lease assets, net of accumulated depreciation and amortization, as detailed in the notes to the financial statements. The components of Parkland's capital and lease assets are as follows:

	2022	2021 (As Restated)	Dollar Change	Percentage Change
Capital Assets				
Buildings	$ 1,673,270	$ 1,424,014	$ 249,256	17.5%
Construction in progress	23,162	217,659	(194,497)	-89.4%
Land and improvements	142,482	145,551	(3,069)	-2.1%
Equipment	876,670	854,851	21,819	2.6%
	2,715,584	2,642,075	73,509	2.8%
Lease Assets				
Buildings	51,569	58,008	(6,439)	-11.1%
Accumulated depreciation and amortization	(1,102,882)	(1,016,932)	(85,950)	8.5%
Capital and lease assets, net	$ 1,664,271	$ 1,683,151	$ (18,880)	-1.1%

	2021 (As Restated)	2020	Dollar Change	Percentage Change
Capital Assets				
Buildings	$ 1,424,014	$ 1,662,342	$ (238,328)	-14.3%
Construction in progress	217,659	203,247	14,412	7.1%
Capital leases	-	14,603	(14,603)	-100.0%
Land and improvements	145,551	148,603	(3,052)	-2.1%
Equipment	854,851	817,192	37,659	4.6%
	2,642,075	2,845,987	(203,912)	-7.2%
Lease Assets				
Buildings	58,008	-	58,008	100.0%
Accumulated depreciation and amortization	(1,016,932)	(1,224,038)	207,106	-16.9%
Capital and lease assets, net	$ 1,683,151	$ 1,621,949	$ 61,202	3.8%

Overall, capital and lease assets, net, decreased 1.1% from 2021 to 2022. Capital and lease assets, net, increased 3.8% from 2020 to 2021.

Table 4: Debt Financing

Bond - financed debt decreased $19 million due to principal payments made in 2021 and the amortization of premiums. No new debt was issued in 2022 or 2021.

	2022	2021	2020
Taxable Series 2009C Bonds	$ 409,205	$ 409,205	$ 412,395
Tax Exempt 2013 Bonds, including premium	1,275	2,617	35,791
Tax Exempt 2019 Bonds, including premium	173,544	191,529	206,173
	$ 584,024	$ 603,351	$ 654,359

Economic Factors

Parkland's Board of Managers and management continue to monitor and consider many factors that have direct or indirect impact on future operations. These include:

- Dallas County's population growth, including growth in the number of uninsured that fall under Parkland's mission;
- Federal and state government funding programs, including the 1115 Transformation Waiver, Medicare, Medicaid, disproportionate share, and new programs, such as the Comprehensive Hospital Increase Reimbursement Program (CHIRP) and the Hospital Augmented Reimbursement Program (HARP);
- Continuing impacts of the COVID-19 pandemic including, but not limited to, patient volumes and additional operating costs;
- Clinical workforce shortages, particularly in nursing.

Significant Financial Practices

Parkland has adopted financial practices designed to maintain its creditworthiness and to position Parkland to carry out its constitutionally defined mission of providing health care to the residents of Dallas County, as well as its fiduciary responsibility to the taxpayers of Dallas County. Those practices are as follows:

- **Assets Limited To Use**

  The Board of Managers sets aside funds for both long-term stability and capital improvements.

- **Monthly Financial Reporting**

  The Board of Managers meets monthly and reviews the financial statements from the prior month. This information is presented to show actual monthly and year-to-date revenues and expenses compared to budget and the prior year. Management provides explanations for significant variances.

- **Pay-As-You-Go Capital Funding**

  Historically, Parkland has maintained the practice of funding capital items under a pay-as-you-go process. In November 2008, Dallas County voters approved the necessary tax increase to issue bonds to partially fund the new Parkland Hospital. In September 2009, Parkland issued $705 million in voter-approved bonds for use in the construction of a new Parkland Hospital. In December 2013, Parkland issued an additional $38.3 million in bonds for continued construction costs for the new Parkland Hospital. Except for the construction of the new hospital campus, Parkland has continued its practice of pay-as-you-go capital funding for routine capital expenditures.

- **Budget Process**

  The operating and capital budgets are proposed by Parkland management and endorsed by the Board of Managers. Final approval is obtained from the Dallas County Commissioners Court. The budgets remain in effect for the entire fiscal year.

Contacting Parkland's Financial Management

This financial report is designed to provide our taxpayers, creditors, patients, and suppliers with a general overview of Parkland's finances and to show Parkland's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact:

By Mail:
Parkland Health
5200 Harry Hines
Dallas, Texas 75235
Attention: Richard Humphrey, Executive Vice President and Chief Financial Officer

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Statements of Net Position
September 30, 2022 and 2021
(In Thousands)

Assets	2022				2021 (As Restated)			
		Discretely Presented Component Units				Discretely Presented Component Units		
	Parkland Health	Parkland Community Health Plan, Inc. 12/31/2021	Parkland Center for Clinical Innovation	Parkland Foundation	Parkland Health	Parkland Community Health Plan, Inc. 12/31/2020	Parkland Center for Clinical Innovation	Parkland Foundation
Current Assets								
Cash and cash equivalents	$ 465,248	$ 178,618	$ -	$ 24,908	$ 535,490	$ 137,847	$ -	$ 20,873
Restricted cash	57,445	-	-	-	86,561	-	-	-
Short-term investments	51,245	-	-	6,052	24,982	-	-	7,051
Assets limited to use	296,072	-	-	-	159,800	-	-	-
Ad valorem taxes receivable, less allowance for uncollectible taxes of $21,912 in 2022 and $21,912 in 2021	3,501	-	-	-	4,661	-	-	-
Patient accounts receivable, less allowance for uncollectible accounts $342,126 in 2021 and $295,951 in 2021	176,993	38,551	-	-	177,852	10,030	-	-
Due from affiliates	9,322	-	-	-	8,843	-	-	-
Due from third-party reimbursement programs	29,728	-	-	-	27,796	-	-	-
Government programs receivable	343,878	-	-	-	220,612	-	75	-
Other receivables	19,778	2,846	495	2,024	20,520	-	508	1,678
Inventories and other assets	47,797	-	232	17	49,579	-	62	4
Total current assets	1,501,007	220,015	727	33,001	1,316,696	147,877	645	29,606
Capital assets, net	1,623,222	-	7,158	-	1,632,302	-	9,069	-
Lease assets, net	41,049	-	301	-	50,849		305	-
Lease receivables	3,927	-	-	-	4,149			
Long-term investments	194,415	68,612	-	1,590	122,633	76,370	1,179	2,288
Assets limited to use	14,950	-	-	-	65,792	-	-	-
Other noncurrent assets	-	-	345	2,078	864	-	246	1,550
Total Assets	3,378,570	288,627	8,531	36,669	3,193,285	224,247	11,444	33,444
Deferred Outflows of Resources - Pension Related	140,167	-	-	-	167,090	-	-	-
Total Assets & Deferred Outflows of Resources	$ 3,518,737	$ 288,627	$ 8,531	$ 36,669	$ 3,360,375	$ 224,247	$ 11,444	$ 33,444

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Statements of Net Position (Continued)
September 30, 2022 *and 2021*
(In Thousands)

	2022				2021 (As Restated)			
		Discretely Presented Component Units				Discretely Presented Component Units		
Liabilities and Net Position	**Parkland Health**	**Parkland Community Health Plan, Inc. 12/31/2021**	**Parkland Center for Clinical Innovation**	**Parkland Foundation**	**Parkland Health**	**Parkland Community Health Plan, Inc. 12/31/2020**	**Parkland Center for Clinical Innovation**	**Parkland Foundation**
Current Liabilities								
Accounts payable and accrued expenses	$ 325,300	$ 139,772	$ 1,143	$ 42	$ 280,869	$ 104,797	$ 931	$ 65
Due to affiliates	-	5,637	22,805	1,200	800	1,928	21,318	2,749
Due to third-party reimbursement programs	-	-	-	-	745	-	-	-
Government programs liability	16,548	-	-	-	22,931	-	-	-
Intergovernmental transfer obligation	57,445	-	-	-	86,561	-	-	-
Provider Relief Funds received in advance	-	-	-	-	14,410	-	-	-
Current portion long term debt	16,410	-	-	-	15,625	-	-	-
Current portion of lease liabilities	7,298	-	146	-	6,632		109	-
Interest payable	3,742	-	-	-	3,485	-	-	-
Other current liabilities	24,883	-	93	478	10,849	-	62	654
Total current liabilities	451,626	145,409	24,187	1,720	442,907	106,725	22,420	3,468
Net pension liability	384,258	-	-	-	471,939	-	-	-
Other noncurrent liabilities	15,635	-	-	-	18,623	-	-	-
Due to affiliates, noncurrent	-	-	9,255	-	-	-	8,770	-
Long term debt	567,614	-	-	-	587,726	-	-	-
Lease liabilities, noncurrent	38,167	-	167	-	49,799		196	-
Total Liabilities	1,457,300	145,409	33,609	1,720	1,570,994	106,725	31,386	3,468
Deferred Inflows of Resources								
Pension related	156,514	- -	-	-	119,498	-	-	-
Leases	3,689	-	-	-	4,149	-	-	-
Total deferred inflows of resources	160,203	-	-	-	123,647	-	-	-
Total Liabilities & Deferred Inflows of Resources	1,617,503	145,409	33,609	1,720	1,694,641	106,725	31,386	3,468
Net Position								
Net investment in capital assets	1,029,855	-	1,764	-	1,021,376	-	529	-
Restricted	2,588	-	-	32,059	3,270	-	-	27,369
Unrestricted	868,791	143,218	(26,842)	2,890	641,088	117,522	(20,471)	2,607
Total Net Position	1,901,234	143,218	(25,078)	34,949	1,665,734	117,522	(19,942)	29,976
Total Liabilities and Net Position	$ 3,518,737	$ 288,627	$ 8,531	$ 36,669	$ 3,360,375	$ 224,247	$ 11,444	$ 33,444

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2022 and 2021
(In Thousands)

	2022				2021 (As Restated)			
		Discretely Presented Component Units				Discretely Presented Component Units		
	Parkland Health	Parkland Community Health Plan, Inc. 12/31/2021	Parkland Center for Clinical Innovation	Parkland Foundation	Parkland Health	Parkland Community Health Plan, Inc. 12/31/2020	Parkland Center for Clinical Innovation	Parkland Foundation
Operating Revenues								
Net patient services	$ 1,275,141	$ -	$ -	$ -	$ 1,211,025	$ -	$ -	$ -
Government programs	643,599	-	-	-	536,682	-	-	-
Premiums	-	738,244	-	-	-	680,130	-	-
Other	218,210	-	7,724	19,538	222,308	-	6,812	12,686
Total operating revenues	2,136,950	738,244	7,724	19,538	1,970,015	680,130	6,812	12,686
Operating Expenses								
Salaries, wages, and benefits	1,516,493	-	7,516	-	1,363,451	-	6,980	-
Purchased medical services	284,646	-	-	-	295,414	-	-	-
Supplies and other	536,634	105,702	1,831	13,546	518,147	84,747	1,406	33,637
Pharmaceuticals	286,227	-	-	-	259,551	-	-	-
Depreciation and amortization	92,560	-	2,815	-	94,179	-	3,007	-
Claims	-	606,536	-	-	-	542,299	-	-
Total operating expenses	2,716,560	712,238	12,162	13,546	2,530,742	627,046	11,393	33,637
Operating Income (Loss)	(579,610)	26,006	(4,438)	5,992	(560,727)	53,084	(4,581)	(20,951)
Nonoperating Revenues (Expenses)								
Ad valorem tax support	757,736	-	-	-	752,632	-	-	-
Gain (loss) on sale of assets	34,857	-	-	-	(24)	-	-	(110)
Grants and contributions	49,840	-	978	-	94,621	-	1,531	-
Build America Bonds subsidy and investment income	(896)	(310)	(1,179)	(1,254)	8,735	2,340	94	1,185
Interest expense	(28,908)	-	(498)	-	(31,477)	-	(474)	-
Loss on reacquired debt using existing resources	-	-	-	-	(2,380)	-	-	-
Total nonoperating revenues and expenses	812,629	(310)	(699)	(1,254)	822,107	2,340	1,151	1,075
Net Income (Loss) Before Capital Contributions	233,019	25,696	(5,137)	4,738	261,380	55,424	(3,430)	(19,876)
Capital contributions	2,481	-	-	235	27,242	-	-	364
Change in Net Position	235,500	25,696	(5,137)	4,973	288,622	55,424	(3,430)	(19,512)
Net position – beginning of year	1,665,734	117,522	(19,941)	29,976	1,377,112	62,098	(16,512)	49,488
Net position – end of year	$ 1,901,234	$ 143,218	$ (25,078)	$ 34,949	$ 1,665,734	$ 117,522	$ (19,942)	$ 29,976

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Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Statements of Cash Flows
Years Ended September 30, 2022 and 2021
(In Thousands)

	2022	2021 (As Restated)
Cash Flows from Operating Activities		
Receipts from third-party payors and patients	$ 1,272,444	$ 1,202,232
Payments to suppliers	(1,063,154)	(1,025,076)
Payments to employees	(1,524,291)	(1,351,483)
Other receipts	217,445	234,280
Gross receipts from Local Provider Participation Fund	345,751	257,029
Gross payments for Local Provider Participation Fund	(374,867)	(245,965)
Receipts from government programs	512,400	325,188
Net cash used in operating activities	(614,272)	(603,795)
Cash Flow from Noncapital Financing Activities		
Ad valorem taxes	724,161	714,842
Grants and contributions	35,691	33,910
Net cash provided by noncapital financing activities	759,852	748,752
Cash Flows from Capital and Related Financing Activities		
Receipt of property taxes for debt service	34,735	37,903
Capital contributions	2,481	27,242
Purchases of capital assets	(82,054)	(125,520)
Proceeds from sale of capital assets	39,024	-
Payment to defease 2013 bonds	-	(34,351)
Interest paid on long-term debt and lease liabilities	(32,353)	(35,630)
Principal payments on long-term debt	(15,625)	(14,930)
Principal payments made on lease liabilities	(6,502)	(5,186)
Principal payments received on lease receivables	222	432
Build America Bond subsidy	7,516	7,567
Net cash used in capital and related financing activities	(52,556)	(142,473)
Cash Flows from Investing Activities		
Interest received	7,921	6,122
Investments:		
Purchases	(706,549)	(153,926)
Maturities	506,838	149,206
Change in designated assets	(1,274)	(15,725)
Net cash used in investing activities	(193,064)	(14,323)
Decrease in Cash and Cash Equivalents	(100,040)	(11,839)
Cash and Cash Equivalents, Beginning of Year	625,321	637,160
Cash and Cash Equivalents, End of Year	$ 525,281	$ 625,321

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Statements of Cash Flows (Continued)
Years Ended September 30, 2022 and 2021
(In Thousands)

	2022	2021 (As Restated)
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (579,610)	$ (560,727)
Depreciation and amortization	92,560	94,179
Provision for amounts due from affiliate	3,952	900
Change in operating assets and liabilities:		
Patient accounts receivable	859	(10,544)
Other receivables, inventories and other assets	3,817	5,436
Due to/from affiliates	(5,426)	(6,799)
Accounts payable and accrued expenses	44,174	79,616
Third-party reimbursement and other government obligations	(161,442)	(199,527)
Other current liabilities	14,034	(4,670)
Deferred outflows - pension	26,923	33,844
Net pension liability	(87,681)	(92,597)
Deferred inflows - pension	37,016	62,843
Deferred inflows - leases	(460)	(4,149)
Other noncurrent liabilities	(2,988)	(1,600)
Net cash used in operating activities	$ (614,272)	$ (603,795)
Supplemental Cash Flows Information		
Unpaid purchases of capital assets in accounts payable and accrued expense	$ 4,927	$ 4,670
Leases receivable recognized with deferred outflows of resources	$ -	$ 158
Lease obligations incurred for lease assets	$ 7,874	$ 16,385
In August 2021, Parkland defeased in-substance Series 2013 Bonds outstanding balance of $34,125 by placing $34,351 in escrow which will be used to redeem the Series 2013 bonds in 2023.		
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents listed on the statements of net position	$ 465,248	$ 535,490
Restricted cash listed on the statements of net position	57,445	86,561
Cash and cash equivalents included in assets limited as to use	2,588	3,270
	$ 525,281	$ 625,321

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas

Statements of Fiduciary Net Position
Dallas County Hospital District Retirement Income Plan
September 30,

(In Thousands)

	2022	2021
Assets		
Investments:		
Cash and cash equivalents	$ 17,379	$ 27,844
Domestic equities	571,575	501,213
Non-U.S. equities	324,178	276,215
Emerging market equities	57,809	61,769
Domestic fixed income	313,490	338,741
Non-U.S. fixed income	88,522	21,306
Real estate	168,370	108,649
Other investments	63,804	38,447
Total investments	1,605,127	1,374,184
Receivables:		
Accrued interest and dividends	1,536	1,405
Investments sold but not settled	98	1,544
Other receivables	102	-
Total receivables	1,736	2,949
Total assets	$ 1,606,863	$ 1,377,133
Liabilities		
Accrued administrative expenses	$ 680	$ 577
Investments purchased but not settled	7,052	1,858
Total liabilities	$ 7,732	$ 2,435
Net Position Restricted for Pensions	**$ 1,599,131**	**$ 1,374,698**

Refer to the audited financial statements for the **Dallas County Hospital District Retirement Income Plan** which has a December 31 fiscal year-end at www.parklandhospital.com

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Dallas County Hospital District Retirement Income Plan
Statements of Changes in Fiduciary Net Position
Years Ended September 30,
(In Thousands)

	2022	2021
Additions		
Contributions:		
Employer contributions	$ 72,500	$ 59,072
Employee contributions	50,396	47,987
Total contributions	122,896	107,059
Investment earnings (losses):		
Net appreciation (depreciation) in fair value of investments	160,804	145,778
Interest	7,657	8,208
Dividends	4,841	5,693
Other	1,365	721
Investment management expense	(3,504)	(2,836)
Net investment earnings	171,163	157,564
Total additions	294,059	264,623
Deductions		
Benefit payments to participants	57,489	52,286
Refunds to former participants	11,884	10,704
Administrative expenses and other	253	233
Total deductions	69,626	63,223
Net Increase in Plan Net Position	224,433	201,400
Net Position Restricted for Net Pensions:		
Beginning of year	1,374,698	1,173,298
End of year	**$ 1,599,131**	**$ 1,374,698**

Refer to the audited financial statements for the **Dallas County Hospital District Retirement Income Plan** which has a December 31 fiscal year-end at www.parklandhospital.com

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas

Notes to Financial Statements
September 30, 2022 and 2021

(In Thousands)

Note 1: Organization and Significant Accounting Policies

Organization

The Dallas County Hospital District, d/b/a Parkland Health ("Parkland"), is a political subdivision of the state of Texas ("State"), and is a discretely presented component unit of Dallas County, Texas. Components of the Dallas County Hospital District are Parkland Health ("Parkland"); the Parkland Community Health Plan, Inc. ("Health Plan"); the Parkland Foundation ("Foundation"); and Parkland Center for Clinical Innovation ("PCCI"). As an essential government function of Dallas County, Parkland is generally exempt from federal income taxes under Section 115 of the Internal Revenue Code. However, Parkland is subject to federal income tax on any unrelated business taxable income. Parkland also holds dual status as a 501(c)(3) organization. During 2022 and 2021, all income was related to essential government functions. Parkland, PCCI, and the Foundation have fiscal years ending September 30. The Health Plan's fiscal year ends December 31.

Parkland operates 745 inpatient beds, 95 neonatal beds, numerous outpatient clinics, and an emergency department. Parkland also operates the Community Oriented Primary Care clinics and Acute Response Clinics in the community. Additionally, Parkland serves as the major teaching hospital for the UT Southwestern Medical Center at Dallas ("UT Southwestern") in accordance with an affiliation agreement effective September 1, 2006. Parkland also manages the Dallas County jail health system. The Dallas County jail is the ninth largest jail in the nation with an average population of 5,930 inmates in 2022.

Parkland acquired the licenses and operations of twelve nursing homes in February 2015, seventeen nursing homes in April 2018, and seven nursing homes in September 2019. One home exited the program in September 2019. Two additional nursing homes were acquired effective May 1, 2020. The arrangement improves the continuity of care for Parkland's patients by allowing Parkland to track their nursing home care. The arrangement also gives uninsured patients easier access to nursing home beds, rather than extended stays at Parkland. Each nursing home is eligible to receive supplemental Medicaid funding with Parkland holding the operating licenses. The Texas Legislature approved the collaboration between nursing homes and public hospitals in 2013 as the state shifted its Medicaid nursing home program into managed care.

The members of Parkland's Board of Managers are appointed by the Dallas County Commissioners Court. Dallas County taxpayers provide ad valorem tax revenues to Parkland, but Dallas County does not hold title to any of Parkland's assets and does not have any rights to Parkland's surpluses. The Dallas County Commissioners Court approves Parkland's tax rate and annual budget.

The Foundation is a nonprofit corporation organized in Texas in 1985, to support and benefit Parkland exclusively. It is an organization as described in Section 501(c)(3) of the Code. The Foundation's mission is to secure substantial financial resources that advance the clinical, educational, and research endeavors of Parkland. Because these resources can only be used by, or for the benefit of Parkland, the Foundation is considered a component unit of Parkland. In addition, because Parkland is entitled to these economic resources and they are significant to Parkland, the Foundation is discretely presented in Parkland's financial statements.

Financial statements for the Foundation can be obtained from the Parkland Foundation, 1341 W. Mockingbird, Suite 1100E, Dallas, Texas 75247, ATTN: President and Chief Executive Officer.

The Health Plan is a nonprofit corporation organized in Texas in 1995 and is reported as a component unit of Parkland because its Board of Directors is appointed by Parkland's Board of Managers and Parkland can impose its will on the Health Plan. It is discretely presented because its board is not substantively the same as Parkland's board, it does not provide services entirely, or almost entirely, for the benefit of Parkland, nor does it have any outstanding debt that is expected to be repaid by Parkland. It is an organization as described in Section 501(c)(4) of the Code. The Health Plan participates in the Texas Medicaid Managed Care Program and the Children's Health Insurance Program. All income of the Health Plan was related business income. Financial statements for the Health Plan can be obtained from Parkland Community Health Plan, 1341 W. Mockingbird, Suite 1150E, Dallas, Texas 75247, ATTN: Executive Director.

PCCI is a nonprofit research and development corporation organized in Texas in 2012. It is an organization as described in Section 501(c)(3) of the Code. PCCI is included in Parkland's financial statements because its Board of Directors is appointed by Parkland's Board of Managers and Parkland can impose its will on PCCI. It does not provide services entirely, or almost entirely, for the benefit of Parkland, nor does it have any outstanding debt that is expected to be repaid by Parkland. Financial statements for PCCI can be obtained from Parkland Center for Clinical Innovation, 8435 N. Stemmons Freeway, Suite 1150, Dallas, Texas 75247, ATTN: Director of Finance.

Parkland maintains the Dallas County Hospital District Retirement Income Plan (the Plan) a single-employer defined benefit pension plan. The Plan is administered by Parkland and is fiscally dependent on Parkland. The Plan is reported as a fiduciary fund in the statements and has a December 31, fiscal year-end. For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For these purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value or amortized cost. Separate financial statements of the Plan are available at www.ParklandHospital.com.

Principles of Reporting

The financial statements include the accounts of Parkland, the Health Plan, the Foundation and PCCI, as described above.

The following are transactions between Parkland and its component units:

Parkland provides certain administrative services to the Health Plan. The Health Plan pays Parkland a management fee, which is recorded as an expense for the Health Plan. The management fee revenue of $2.4 million and $7.0 million for 2022 and 2021, respectively, are based on Parkland's fiscal year end.

Parkland supports the Foundation by employment of all individuals performing the daily business functions of the Foundation and payments for goods and services. These costs are recognized as in-kind contributions and expenses in the Foundation's financial statements. In addition, in fiscal year 2022 and 2021, the Foundation made contributions to Parkland of $2.5 million and $25.3 million, respectively, in support of construction of the new health clinic adjacent to the hospital. These amounts were recorded in capital contributions in the statements of revenues, expenses and changes in net position. The Foundation made other contributions to Parkland of $3.6 million and $1.9 million in 2022 and 2021, respectively. These contributions are recorded in grants and contributions in the statements of revenues, expenses and changes in net position.

Parkland supports PCCI by funding payments for operating expenses. In addition, in 2013, Parkland sold intellectual property associated with PCCI's software system to PCCI for $4.5 million plus accrued interest. The amounts due to Parkland by PCCI for both the intellectual property and operations, net of allowance, was $0 as of September 30, 2022 and 2021.

In accordance with GASB Statement No. 84, the assets and net position of the Plan are presented separately from those of Parkland. The Plan is used to account for assets held in trust for the benefit of the employees of the System for the defined benefit pension plan. The financial statements of the Plan are prepared using the accrual basis of accounting. Employer contributions to the Plan are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Unless otherwise noted, the following footnotes do not include the Foundation, the Health Plan, PCCI or the Plan.

Significant Accounting Policies

Net position is classified into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets — This component of net position consists of capital assets and lease assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets or liabilities incurred to lease those assets. Unspent related debt proceeds are excluded from the calculation of net investment in capital assets.

Restricted — This component of net position consists of those assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation.

Unrestricted — This component of net position consists of those assets that do not meet the definition of "restricted" or "net investment in capital assets."

Parkland uses the accrual method of accounting, whereby revenues are recognized in the accounting period when services are rendered and expenses are recognized when incurred.

Parkland is considered a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board ("GASB").

Statements of Revenues, Expenses and Changes in Net Position

For purposes of financial statement presentation, operating revenues include those generated from direct patient care and related support services. Nonoperating revenues consist of those revenues that are related to financing and investing types of activities and result from nonexchange transactions or investment income. When an expenditure is incurred for the purposes for which there are both restricted and unrestricted net position available, it is Parkland's policy to apply those expenditures to restricted net position, to the extent that such are available, and then to unrestricted net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Parkland Foundation Net Position

Upon receipt, contributions, grants, and other revenue restricted by donors for specific purposes are recorded to the appropriate restricted net asset class. Restricted net assets are generally recognized as additions to unrestricted net position only to the extent that qualifying expenditures are incurred. Pledges received with substantial contingencies are not reflected in the statements of net position until the contingencies have been fulfilled.

Cash, Cash Equivalents and Investments

Parkland considers all highly liquid investments with original maturities of less than 90 days at date of purchase to be cash equivalents. Cash and cash equivalents include demand deposits and investments in the Texas Local Government Investment Pool ("TexPool"), which is a local government investment pool sponsored by the Texas Comptroller of Public Accounts and managed by Federated Investors. Additional cash and cash equivalents are kept in AAA-rated Securities and Exchange Commission-registered money market mutual funds. All Parkland demand deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized with securities pledged to Parkland and held in safekeeping at a third-party bank on behalf of Parkland's depository institution.

Statutes give Parkland the authority to invest in obligations of the United States, as well as direct obligations of the State and other obligations guaranteed or insured by the State or the United States. The following investments are also acceptable: obligations of states, agencies, counties, or cities of any state that have been rated not less than "A" or its equivalent by a nationally recognized ratings firm, and certificates of deposit guaranteed, insured, or secured by approved investments.

Other authorized investments include prime commercial paper; Securities and Exchange Commission-registered, no-load money market mutual funds whose assets consist exclusively of approved investments; and approved local government investment pools.

Investments (including those in assets limited to use) at September 30, 2022 and 2021 are reported at fair value based on quoted market prices with realized and unrealized gains and losses included in Build America Bonds Subsidy and investment income (loss) in the statements of revenues, expenses, and changes in net position. TexPool investments are amortized using the cost method. Obligations of the United States government with maturity dates in excess of one year that are not expected to be traded within one year are reported as long-term investments in the accompanying statements of net position.

Receivables and Payables

The carrying amount of receivables and payables is reported in the statements of net position at approximate fair value due to the short maturity of these instruments. Lease receivables are initially measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectable amounts.

Inventories

Inventories are stated at the lower of cost (determined on an average-cost basis) or market.

Capital Assets

Capital assets are recorded at cost or, if donated, acquisition value at the date of receipt. Costs of major renewals and betterments that extend useful lives are capitalized, while maintenance and repairs are charged to current operations. Assets with a purchase price of $5,000 or more are capitalized and assets with a purchase price of less than $5,000 are expensed. Disposals are removed at carrying cost, less accumulated depreciation and amortization, with any resulting gain or loss included in other nonoperating revenue or expense. Depreciation and amortization is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and land improvements are 10 to 40 years and for equipment 3 to 20 years.

Parkland evaluates long-lived assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42). If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. If an asset's estimated fair value is below its carrying value an impairment is recorded. There was no impairment recognized in 2022 or 2021.

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. Parkland only recognizes lease assets related to lease arrangements with more than $5,000 of payments over the lease term.

Assets Limited to Use

Resources are also set aside for board-designated purposes or self-insurance arrangements. It has been the general practice of Parkland, due to the timing of cash flows, to temporarily use board designated funds to fund operating activities.

Deferred Outflows of Resources and Deferred Inflows of Resources

Parkland reports the consumption of net position and the acquisition of net position that is attributable to future reporting periods as deferred outflows of resources and deferred inflows of resources, respectively, in a separate section of its statement of net position.

Uncompensated Care

Parkland provides services to uninsured patients who qualify for tax-supported care. The program is called Parkland Financial Assistance and is designed for Dallas County indigent patients with family incomes up to 250% of the federal poverty level and no third-party coverage, such as Medicaid, Medicare, or commercial insurance. Parkland recognized ad valorem tax revenues of approximately $757.7 million and $752.6 million in 2022 and 2021, respectively, to fund services for qualified patients and debt service obligations.

Parkland also provides services to patients who are Dallas County residents and have incomes that exceed the limit for tax-supported health care or whose income cannot be determined. Although these patients are uninsured, they do not qualify for tax-supported health care and are classified as self-pay. Certain of these patients are medically indigent. Additionally, certain of these patients have limited financial resources and are unable to pay for the services received, while others may be able to pay for some or all services received but are unwilling to do so.

Management estimates the cost of uncompensated health care by applying a ratio of overall costs to gross charges, applied to the gross uncompensated charges, which includes services provided to Medicaid beneficiaries, the uninsured and patients enrolled in other indigent programs. During the year ended September 30, 2022, the estimated cost of uncompensated care was approximately $1,364 million, of which approximately $746 million was charity care. For the year ended September 30, 2021, the estimated cost of uncompensated care was approximately $1,221 million, of which approximately $585 million was charity care.

Ad Valorem Taxes

Parkland received approximately 25% and 26% of its total revenues from ad valorem taxes in 2022 and 2021, respectively. Parkland's ad valorem taxes receivable is net of an allowance for uncollectible taxes of approximately $21.9 million as of both September 30, 2022 and 2021.

Current taxes are collected beginning in October of each year and become delinquent after January 31. Ad valorem tax revenue is recognized in the year for which taxes are levied. A schedule of ad valorem taxes follows:

Fiscal Year	Tax Base	Tax (per $100) Valuation	Net Tax Revenue (1)	Cost of Uncompensated Care	Cost of Uncompensated Care Over Tax
2021	$ 279,706,333	0.266	$ 752,632	$ 1,220,915	$ 468,283
2022	299,050,646	0.236	757,736	1,364,311	606,575

(1) Net tax revenue includes adjustments for actual collection performance.

Disproportionate Share

The disproportionate share program is a supplemental reimbursement program for hospitals that provide a significant portion of Medicaid and indigent care services. Under program guidelines, Parkland may use the funds to benefit the indigent in either current or future periods. Parkland recognizes all funds received under the program as operating revenue in the applicable year, and any amounts relating to that year that are not yet received are included in other receivables in the accompanying statements of net position. There is no guarantee that this program will continue into future years. Total revenue recognized related to the disproportionate share program was $89.2 million and $83.1 million in 2022 and 2021, respectively. Any differences between amounts accrued at the end of the prior reporting period are included in the statements of revenues, expenses, and changes in net position in the year those differences become known. Government programs revenues were increased by $9.8 million 2022 and $70 million in 2021 as a result of recognition of those differences.

1115 Transformation Waiver Funds

The 1115 Transformation Waiver began October 1, 2011. Under this waiver, the former Upper Payment Limit ("UPL") programs were discontinued in favor of a reimbursement methodology that balances payment for uncompensated care costs ("UC") with the need to improve quality of care for Texas recipients using Delivery System Reform Incentive Payments ("DSRIP") funds. The program divides the state into 20 Regional Health Partnerships ("RHPs"), creating an environment where regional collaboration is essential to earn available monies. Parkland serves as an "anchor" hospital (administrative lead) for one of these regions.

On April 22, 2022, CMS approved an extension of the Waiver through September 30, 2030. The extension provides for the continuation of the UC Pool. The DSRIP program ended on September 30, 2021 and was not extended under the Waiver extension. Revenue recognized related to the 1115 Waiver was $362.1 million and $402.5 million in 2022 and 2021, respectively, which is recognized as a component of government programs revenue in the statements of revenues, expenses and changes in net position. CMS has approved an expansion of directed payment programs, which transitions participating hospitals away from the DSRIP program, which are discussed more fully below.

Parkland receives supplemental payments through the Public Hospital Medicaid Graduate Medical Education (GME) program. The GME program provides reimbursement to support teaching hospitals that operate approved medical residency training programs in recognition of the higher costs incurred by teaching hospitals. Revenue recognized related to the GME program was $21.1 million in both 2022 and 2021 and is recognized as a component of government programs revenue in the statements of revenues, expenses and changes in net position.

In 2022, Parkland began participating in the Public Hospital Augmented Reimbursement Program (HARP). HARP is a statewide supplemental program that provides Medicaid payments to certain hospitals for inpatient and outpatient services that serve Texas Medicaid fee-for-service patients. The program serves as a financial transition for providers historically participating in the DSRIP program and provides additional funding to participating hospitals to assist in offsetting the cost hospitals incur while providing Medicaid services. HARP revenue was $133.7 million in 2022 and is recognized as a component of government programs revenue in the statements of revenues, expenses and changes in net position.

In 2022, Parkland also began participating in the Texas Incentives for Physicians and Professional Services Program (TIPPS). TIPPS is a directed payment program for certain physician practice groups providing health care services to children and adults enrolled in the STAR, STAR+PLUS and STAR Kids Medicaid managed care programs. Eligible physician practice groups include health-related institutions (HRIs), indirect medical education physician practice groups affiliated with hospitals and other physician practice groups. TIPPS revenue was $9.2 million in 2022 and is recognized as a component of government programs revenue in the statements of revenues, expenses and changes in net position.

Parkland is also a participant in the Network Access Improvement Program (NAIP). NAIP aims to increase the availability and effectiveness of primary care for Medicaid beneficiaries by providing incentive payments to participating HRIs. Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by HHSC, the costs associated with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as Parkland. This program runs through 2027. Revenue recognized related to NAIP was $37.6 million and $41.2 million in 2022 and 2021, respectively, and is recognized as a component of other operating revenue in the statements of revenues, expenses and changes in net position.

Revenue recognized from these programs described above involve a considerable amount of judgment and are subject to audit and final reconciliation by HHSC. Parkland estimates amounts expected to be repaid based upon historical experience and existing facts and circumstances related to the supplemental funding programs. Any differences between final settlements and amounts accrued at the end of the prior reporting period are included in the statements of revenues, expenses, and changes in net position in the year those differences become known. Government programs revenues were increased by $25.8 million and $33.1 million in 2022 and 2021, respectively, as a result of recognition of those differences.

Another new directed payment programs is the Comprehensive Hospital Increased Reimbursement Program (CHIRP), which adds a quality component to the existing Uniform Hospital Rate Increase Program (UHRIP). Participating hospitals may opt into this second component. Under UHRIP and CHIRP, HHSC directs managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. The UHRIP program transitioned on August 31, 2021, and the CHIRP program began on September 1, 2021. CHIRP will require annual approval by CMS and has been approved through August 31, 2023. Revenue from UHRIP and CHIRP are recognized as a component of net patient services revenue in the statements of revenues, expenses and changes in net position.

The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS, and the programs could be modified or terminated based on new legislation or regulation in future periods. The funding Parkland has historically received from these programs is not representative of funding to be received in future years.

Local Provider Participation Fund

During 2017, a Local Provider Participation Fund (LPPF) was created in Dallas County. Parkland acts as the administrator of the LPPF by assessment and collection of mandatory payments from hospitals in Dallas County. These payments are to be used to fund intergovernmental transfers representing the state's share of supplemental Medicaid funding programs.

During 2022, Parkland collected $345.8 million from the LPPF in mandatory payments and made intergovernmental transfers of $375.8 million. During 2021, Parkland collected $257.0 million from the LPPF in mandatory payments and made intergovernmental transfers of $245.8 million. At September 30, 2022 and 2021, Parkland held $57.4 million and $86.6 million, respectively, in mandatory payments.

Net Patient Services Revenue

Parkland has agreements with third-party payors that provide for reimbursement to Parkland at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between Parkland's established rates for services and the amounts reimbursed by third-party payors. Parkland's more significant third-party payors are the Medicare and Medicaid programs, which accounted for gross charges of approximately 16.3% and 26.7%, respectively, in 2022 and 17.1% and 27.6%, respectively, in 2021.

Allowances for uncollectible amounts are estimated using historical experience, current trends and policy information, aged account balances, and a collectability analysis. Net patient services revenue in the accompanying statements of revenues, expenses and changes in net position is net of contractual adjustments and bad debt provisions totaling approximately $7.4 billion and $6.9 billion for the years ended September 30, 2022 and 2021, respectively.

In accordance with provisions of the Medicare and Medicaid programs, inpatient services to Medicare and Medicaid beneficiaries are paid at prospectively determined rates per discharge based on a patient classification system utilizing clinical, diagnostic, and other factors. Medicare outpatient services are reimbursed on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedure. Medicaid outpatient services are paid based on the lower of reasonable costs or customary charges, a fee schedule, or blended rates. For certain costs, as defined by the Medicare program, including kidney acquisition and medical education, additional reimbursement is provided based on cost pass-through payments and the cost report.

Cost-reimbursable items are reimbursed to Parkland at a tentative rate, with final settlement determined after submission of annual cost reports by Parkland, which are subject to audit by the administrative contractors prior to final settlement. Any differences between final audited settlements and amounts accrued at the end of the prior reporting period are included currently in the statements of revenues, expenses, and changes in net position as an adjustment to the appropriate allowance account. Such adjustments increased net patient services revenue by $9.3 million and $7.2 million in 2022 and 2021, respectively. Parkland's cost reports have generally been audited and settled by the administrative contractors through 2018 for Medicare and 2017 for Medicaid. Cost reports for both programs are subject to certain re-openings and appeals as per federal and state regulations.

Premium Revenues

The Health Plan's premium revenues are recognized in the period in which the members of the Health Plan are entitled to receive health care services. Premiums collected in advance are deferred. Revenues for delivery supplemental payments received for Medicaid-eligible births under the Health Plan are recognized based on claims information from Texas hospitals and information from the State and include estimates for incurred, but unreported births at year-end.

Grant Revenue

Grant revenues are recognized in the period in which expenditures related to the grant are incurred or the period in which grant funds become available.

Build America Bond Interest Subsidy

Parkland issued taxable Build America Bonds (BAB) in 2009. Under the BAB program, the U.S. Treasury pays 35% of the interest payments as a subsidy to the issuer. Parkland records the interest subsidy received or receivable from the U.S. Treasury as nonoperating revenue when Parkland has met all of the eligibility criteria to receive the subsidy. Parkland recorded approximately $7.3 million of nonoperating revenue in 2022 and $7.6 million in 2021, for the BAB interest subsidy.

The BAB subsidy was reduced by 5.7% in both 2022 and 2021 as part of the federal sequestration spending reductions.

Compensated Absences

Parkland accrues an estimated liability for compensated absences as they are earned by employees based on Parkland's policy. Parkland's liability related to compensated absences was $49.7 million for 2022 and $49.8 million for 2021 and is recorded in the financial statements in accounts payable and accrued expenses.

Pharmaceutical Costs

Parkland participates in replacement pharmaceutical programs on behalf of patients who enroll and meet eligibility requirements of these programs.

Risk Management

Parkland is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice, employee health claims and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Parkland is self-insured for a portion of its exposure to risk of loss from medical malpractice, workers compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice, workers' compensation and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Change in Accounting Principle

On October 1, 2021, Parkland adopted GASB Statement No. 87, *Leases,* (GASB 87) using a retrospective method of adoption to all leases in place and not yet completed at the beginning of the earliest period presented. The statement requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible lease asset. The 2021 financial statements and disclosures were restated to reflect the impact of this adoption. At October 1, 2020, Parkland recognized $41.6 million in lease assets, $45.2 million in lease liabilities, $4.6 million in lease receivables and $4.5 million in deferred inflows of resources as a result of the adoption of GASB 87. The adoption of GASB 87 had no impact on net position as of October 1, 2020.

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The effect of the changes made to the accompanying statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows as of and for the year ended September 30, 2021:

	2021 (As Previously Reported)	Effect of Adoption	2021 (As Restated)
Statement of Net Position			
Inventories and other assets	$ 46,902	$ 2,677	$ 49,579
Total current assets	1,314,019	2,677	1,316,696
Capital assets, net	1,641,735	(9,433)	1,632,302
Lease assets, net	-	50,849	50,849
Lease receivables	-	4,149	4,149
Total assets	3,145,043	48,242	3,193,285
Total assets and deferred outflows of resources	3,312,133	48,242	3,360,375
Current portion of capital lease payable	131	(131)	-
Current portion of lease liabilities	-	6,632	6,632
Total current liabilities	436,406	6,501	442,907
Capital leases	12,207	(12,207)	-
Lease liabilities, noncurrent	-	49,799	49,799
Total liabilities	1,526,901	44,093	1,570,994
Deferred inflows of resources - leases	-	4,149	4,149
Total deferred inflows of resources	119,498	4,149	123,647
Total liabilities and deferred inflows of resources	1,646,399	48,242	1,694,641
Total liabilities and net position	3,312,133	48,242	3,360,375
Statement of Revenues, Expenses and Changes in Net Position			
Other	222,387	(79)	222,308
Total operating revenues	1,970,094	(79)	1,970,015
Supplies and other	525,765	(7,618)	518,147
Depreciation and amortization	88,025	6,154	94,179
Total operating expenses	2,532,206	(1,464)	2,530,742
Operating income (loss)	(562,112)	1,385	(560,727)
Build America Bonds Subsidy and investment income	8,656	79	8,735
Interest expense	(30,013)	(1,464)	(31,477)
Total nonoperating revenue (expense)	823,492	(1,385)	822,107
Statement of Cash Flows			
Payments to suppliers	(1,031,596)	6,520	(1,025,076)
Other receipts	234,791	(511)	234,280
Net cash used in operating activities	(609,804)	6,009	(603,795)
Payment of debt and capital lease principle	(15,059)	15,059	-
Interest paid on long-term debt and lease liabilities	(34,166)	(1,464)	(35,630)
Principal payments on long-term debt	-	(14,930)	(14,930)
Principal payments made on lease liabilities	-	(5,186)	(5,186)
Principal payments received on lease receivables	-	432	432
Net cash used in capital and related financing activities	(136,384)	(6,089)	(142,473)
Interest received	6,042	80	6,122
Net cash used in investing activities	(14,403)	80	(14,323)
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating loss	(562,112)	1,385	(560,727)
Depreciation and amortization	88,025	6,154	94,179
Other receivables, inventories and other assets	2,817	2,619	5,436
Deferred inflows of resources - leases	-	(4,149)	(4,149)
Net cash used in operating activities	(609,804)	6,009	(603,795)
Supplemental Cash Flows Information			
Lease obligations incurred for lease assets	-	16,385	16,385

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Note 2: Deposits and Investments

As of September 30, 2022 and 2021, Parkland had deposits and investments as follows (in thousands):

Description	2022 Fair Value	2022 Weighted-Average Days to Maturity	2021 Fair Value	2021 Weighted-Average Days to Maturity
Bank deposits	$ 3,163	N/A	$ 3,441	N/A
Texpool deposits	515,608	1	616,878	1
Money market funds	6,510	1	5,002	1
Commercial paper	121,975	75	-	N/A
FNMA	60,314	1,038	106,629	956
FHLB	133,972	520	106,636	622
FHLMC	96,951	650	98,747	104
FFCB	-	N/A	24,755	205
U.S. Treasury	131,818	453	33,170	1,355
Municipal bonds	9,064	138	-	N/A
	$ 1,079,375		$ 995,258	

Description on Statements of Net Position

	2022	2021
Cash, restricted cash and cash equivalents	$ 522,693	$ 622,051
Assets limited to use		
Current portion	296,072	159,800
Noncurrent portion	14,950	65,792
Investments		
Short-term	51,245	24,982
Long-term	194,415	122,633
	$ 1,079,375	$ 995,258

Investment Maturities

	2022	2021
One year or less	$ 351,239	$ 186,514
After one through five years	188,612	159,399
After five through ten years	7,230	10,912
After ten years	13,523	18,114
	$ 560,604	$ 374,939

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Estimated fair values have been determined by Parkland using appropriate valuation methodologies by third parties, quoted market prices and information available to management as of September 30, 2022 and 2021. The investments are recorded at fair value with the exception of TexPool deposits which are recorded at amortized cost. Parkland adjusts the carrying value of financial instruments classified as assets to reflect their estimated fair value. Cash and cash equivalents included in assets limited to use were $2.6 million and $3.3 million as of September 30, 2022 and 2021, respectively.

Parkland categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 are significant other observable inputs; and Level 3 are significant unobservable inputs (Parkland does not value any of its investments using Level 3 inputs).

The following is a summary of the hierarchy of the fair value of investments of Parkland as of September 30, 2022 and 2021:

	2022 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
U.S. Treasury securities	$ 131,818	$ -	$ 131,818
U.S. Government agency obligations	124,825	166,412	291,237
Money market funds	6,510	-	6,510
Commercial paper	-	121,975	121,975
Municipal bonds	-	9,064	9,064
Total investments and cash equivalents by fair value level	$ 263,153	$ 297,451	$ 560,604

	2021 Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
U.S. Treasury securities	$ 33,170	$ -	$ 33,170
U.S. Government agency obligations	244,768	91,999	336,767
Money market funds	5,002	-	5,002
Total investments and cash equivalents by fair value level	$ 282,940	$ 91,999	$ 374,939

These amounts exclude investments in local government investment pools which are recorded at amortized cost. These investments total $515.7 million and $616.9 million as of September 30, 2022 and 2021, respectively.

Interest Rate Risk — Parkland invests in fixed-rate debt securities that primarily have average maturities of approximately one to five years. Interest rate risk is limited by the short-term nature of these investments.

Credit Risk — Parkland has a comprehensive investment policy that is designed to comply with state law and the *Texas Public Funds Investment Act*. The debt securities issued by Federal National Mortgage Association ("FNMA"), the Federal Home Loan Bank ("FHLB") the Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Farm Credit Bank ("FFCB") are rated AA+ by Standard & Poor's rating agency. TexPool's portfolio consists exclusively of U.S. government securities; repurchase agreements collateralized by U.S. government securities; and AAA-rated, no-load money market mutual funds. All bank deposits are collateralized by FDIC insurance and with securities pledged to Parkland held in safekeeping at a third-party bank on behalf of Parkland's depository institutions with the exception of $3.2 million of cash held at the individual nursing homes.

Concentration of Credit Risk — Per Parkland's investment policy, no more than 40% of the investment portfolio can be invested in any one issuer of U.S. government agencies and government-sponsored enterprises, including, but not limited to, the FNMA, the FHLB, the FHLMC and the FFCB. The largest percentage in any one issuer is invested with FHLB at 12.4% and FHLB at 10.7% as of September 30, 2022 and 2021, respectively.

Custodial Credit Risk — Per Parkland's investment policy, all investments are held in Parkland's name in safekeeping at Parkland's trust or custodial institutions.

Investment Income

Investment income for the years ended September 30, 2022 and 2021, consisted of the following (in thousands):

	2022	2021 (As Restated)
Investment income, including		
Realized gains and BAB Subsidy	$ 15,966	$ 13,149
Unrealized loss on investments	(16,862)	(4,414)
Total investment income	$ (896)	$ 8,735

Note 3: Assets Limited to Use

Assets limited to use at September 30, 2022 and 2021, consist of the following funds which are all investments in TexPool and U.S. government-sponsored enterprises:

	2022	2021
Debt service	$ 2,588	$ 3,270
Designated for capital uses	295,912	211,005
Other designated	12,522	11,317
Total	311,022	225,592
Less current	(296,072)	(159,800)
Noncurrent	$ 14,950	$ 65,792

Debt service — Assets limited to use for debt service represent those assets related to the bond issues whose use is legally restricted.

Designated for capital acquisitions — Assets limited to use designated for capital acquisitions represent funds designated at the discretion of the Board of Managers for annual capital additions, as well as funding for a combination of renovations and new facilities.

Other designated — Other assets limited to use includes funds designated by the Board of Managers to fund Parkland's hospital professional liability program.

Note 4: Capital and Lease Assets

Capital assets activity for the years ended September 30, was:

	2022			
	Beginning Balance	Additions/ Transfers In	Retirements/ Transfers Out	Ending Balance
Capital Assets				
Land and improvements	$ 145,551	$ 1,519	$ (4,588)	$ 142,482
Buildings	1,424,014	249,824	(568)	1,673,270
Equipment	854,851	25,228	(3,409)	876,670
Total capital assets	2,424,416	276,571	(8,565)	2,692,422
Less Accumulated Depreciation				
Land and improvements	(11,924)	(1,394)	-	(13,318)
Buildings	(275,107)	(46,190)	243	(321,054)
Equipment	(722,742)	(36,431)	1,183	(757,990)
Total accumulated depreciation	(1,009,773)	(84,015)	1,426	(1,092,362)
Net	1,414,643	192,556	(7,139)	1,600,060
Construction in progress	217,659	84,290	(278,787)	23,162
Capital Assets, Net	$ 1,632,302	$ 276,846	$ (285,926)	$ 1,623,222

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	2021 (As Restated)			
	Beginning Balance	Additions/ Transfers In	Retirements/ Transfers Out	Ending Balance
Capital Assets				
Land and improvements	$ 148,603	$ 13	$ (3,065)	$ 145,551
Buildings	1,662,342	53,478	(291,806)	1,424,014
Equipment	817,192	39,908	(2,249)	854,851
Total capital assets	2,628,137	93,399	(297,120)	2,424,416
Less Accumulated Depreciation				
Land and improvements	(10,542)	(1,382)	-	(11,924)
Buildings	(525,947)	(44,802)	295,642	(275,107)
Equipment	(683,383)	(41,126)	1,767	(722,742)
Total accumulated depreciation	(1,219,872)	(87,310)	297,409	(1,009,773)
Net	1,408,265	6,089	289	1,414,643
Construction in progress	203,247	14,412	-	217,659
Capital Assets, Net	$ 1,611,512	$ 20,501	$ 289	$ 1,632,302

Lease assets activity for the years ended September 30, was:

	2022			
	Beginning Balance	Additions/ Transfers In	Retirements/ Transfers Out	Ending Balance
Buildings	$ 58,008	$ 7,874	$ (14,313)	$ 51,569
Less accumulated amortization	(7,159)	(8,242)	4,881	(10,520)
Lease Assets, Net	$ 50,849	$ (368)	$ (9,432)	$ 41,049

	2021 (As Restated)			
	Beginning Balance	Additions/ Transfers In	Retirements/ Transfers Out	Ending Balance
Buildings	$ 41,623	$ 16,385	$ -	$ 58,008
Less accumulated amortization	-	(7,159)	-	(7,159)
Lease Assets, Net	$ 41,623	$ 9,226	$ -	$ 50,849

Note 5: Lease Receivable

Parkland leases building space and parking to various third-parties, the terms of which expire 2023 through 2088. Revenue recognized under lease contracts during the years ended September 30, 2022 and 2021, was $19 thousand and $36 thousand, respectively, which includes both lease revenue and interest.

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2022 and 2021, consist of the following:

	2022	2021
Accounts payable	$ 44,362	$ 51,554
Accrued expenses	165,100	129,421
Accrued payroll	81,982	74,773
Employee health care benefit liability	26,853	17,360
Other employee benefits	7,003	7,761
Total accounts payable and accrued expenses	$ 325,300	$ 280,869

The liabilities, described in the table below as of September 30, 2022 and 2021, are based on requirements that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities include estimates for both reported claims and incurred, but not reported claims. As a result of settled claims, the frequency of new claims, and other economic and social factors, claims liabilities are re-evaluated periodically.

	Balance at Beginning of Year	Current-Year Claims & Changes in Estimates	Claim Payments	Balance at End of Year
Hospital professional and general liability:				
2021	$ 11,814	529	(1,523)	$ 10,820
2022	$ 10,820	2,255	(1,051)	$ 12,024
Employee health care benefit liability:				
2021	$ 16,788	145,750	(145,178)	$ 17,360
2022	$ 17,360	165,546	(156,053)	$ 26,853
Workers' compensation liability:				
2021	$ 3,458	4,225	(2,375)	$ 5,308
2022	$ 5,308	1,294	(1,393)	$ 5,209

Hospital Professional and General Liability — Parkland is involved in certain legal actions and claims arising in the ordinary course of operations. Parkland records estimated self-insurance costs for medical malpractice and general liabilities as other current and other long-term liabilities. The estimated liability is reported in other long-term liabilities in the statements of net position.

Employee Health Care Benefit Liability — Parkland manages a self-insurance plan that provides for the payment of employee health claims. Parkland records estimated self-insurance costs for health claims as current liabilities. The amount of the estimated liability is derived from a claims modeling system. To obtain coverage, employees authorize payroll withholdings to pay the employee portion of contributions for individual and dependent coverage. Claims are paid by a third-party administrator acting on behalf of Parkland. The administrative contract between Parkland and the third-party administrator is renewable annually, and administrative fees are included in the contractual provisions. The employee health care benefit liability is reported in accounts payable and accrued expenses in the statements of net position.

Workers' Compensation Liability — Parkland maintains a self-insurance program for workers' compensation benefits, managed by a third-party administrator. Parkland records estimated self-insurance costs for workers' compensation as current liabilities. The amount provided for the estimated liability is based on settlement of claims. The estimated liability is reported in accounts payable and accrued expenses in the statements of net position.

Note 7: Retirement Plans

Defined Benefit Plan — Parkland maintains the Dallas County Hospital District Retirement Income Plan, a single-employer, defined benefit pension plan ("Plan"). The Plan participation as of January 1, 2022 includes 11,610 active participants, 4,570 inactive employees entitled to but not yet receiving benefits, and 3,396 retirees and beneficiaries. The Plan is administered by the Board of Managers of Parkland ("Board"). The annual payroll for employees covered by the Plan for the years ended December 31, 2021 and 2020, which is included in the actuarial valuation as of January 1, 2022 and 2021, respectively, was approximately $721.3 million and $706.9 million.

Effective January 1, 2018, employees were required to contribute 6.2% of their annual salaries to the Plan. Prior to this date, employees were required to contribute 5.5% of their annual salaries to the Plan. Parkland is required by the Plan to contribute the remaining amounts necessary to fund the Plan using actuarial methods.

Parkland's funding policy is to make periodic actuarially determined employer contributions in amounts designed to accumulate sufficient assets to pay benefits when due. The projected entry age normal method is used to determine both the funding and the pension benefit obligation.

The Plan's assets include investments reported at fair value. Investments in mutual funds, corporate equities, and fixed income securities are reported at fair value based on published market prices. Short-term money market funds are reported at cost, which approximates fair value. Investments in common collective trusts and hedge funds are reported at net asset value as a practical expedient for fair value.

Calculation of Money Weighted Rate of Return — The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long term expected rate of return.

Actuarial Methods and Assumptions

	2022	2021
Valuation date	January 1, 2022	January 1, 2021
Measurement date	December 31, 2021	December 31, 2020
Investment rate of return	6.00%	6.00%
Inflation	2.50%	2.50%
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	30 year, closed	30 year, closed
Amortization growth rate	4.00%	4.00%
Salary increases including inflation	Graded table	Graded table
Mortality	Separate rates using Pub-2010 Public General Mortality Tables by gender and MP-2021 (generational with convergence to long term rate of 0.75% in 2037)	Separate rates using Pub-2010 Public General Mortality Tables by gender and MP-2020 (generational with convergence to long term rate of 0.75% in 2036)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate range of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Index	Current Allocation	Long-Term Expected Geometric Real Rate of Return
Cash	BAML 3-Mon Tbill	0.76%	-0.26%
Core Fixed Income	Barclays Aggregate	17.97%	1.28%
Government Bonds	Barclays Government	2.60%	1.00%
Long Government Bonds	Barclays Long Government	2.12%	1.22%
Mortgages	Barclays Mortgage	6.21%	1.94%
Municipal Bonds	Barclays Muni	0.33%	0.50%
Inflation-Indexed Bonds	Barclays US TIPs	0.13%	0.48%
Large Caps	S&P 500	26.85%	3.46%
Small and Mid Caps	Russell 2500	9.26%	3.91%
Non-US Equity	MSCI ACWI xUS NR	7.83%	4.94%
Foreign Developed Equity	MSCI EAFE NR	8.17%	4.52%
Emerging Markets Equity	MSCI EM NR	3.65%	5.31%
Non-US Small Cap	MSCI EAFE Small Cap NR	4.48%	4.60%
REITs	FTSE NAREIT Equity REIT	9.64%	3.48%
Assumed Inflation - Mean			2.50%
Portfolio Nominal Mean Return			6.20%
Portfolio Standard Deviation			12.11%
Long-Term Expected Rate of Return			6.00%

GASB 68 requires a blended discount rate be used to measure the total pension liability (the actuarial accrued liability calculated using the individual entry age normal cost method). The long-term expected return on Plan investments may be used to discount liabilities to the extent that the Plan's fiduciary net position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the fiduciary net position is not projected to cover benefit payments and administrative expenses. GASB 68 does allow for alternative evaluations of projected solvency.

The following circumstances justify an alternative evaluation of sufficiency for the Plan:

- Parkland has at least a five-year history of paying at least 100% of the actuarially determined contribution (previously termed the annual required contribution).

- The actuarially determined contribution is based on a closed amortization period, which means that payment of the actuarially determined contribution each year will bring the Plan to a 100% funded position by the end of the amortization period.

- The projections regarding future solvency assume that Plan assets earn the assumed rate of return and there are no future changes in the Plan provisions or actuarial methods and assumptions. Therefore, the projections will not reflect any adverse future experience which might impact the Plan's funded position.

Based on these circumstances, the detailed depletion date projections will show that the fiduciary net position is projected to be sufficient to cover benefit payments and administrative expenses.

Changes in the total pension liability, plan fiduciary net position and the net pension liability are:

	2022		
(in thousands)	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances, beginning of year	$ 1,847,213	$ 1,375,274	$ 471,939
Changes for the year			
Service cost	68,967	-	68,967
Interest on total pension liability	112,920	-	112,920
Effect of economic/demographic gains or losses	15,847	-	15,847
Effect of assumptions changes or inputs	8,495	-	8,495
Contributions - employee	-	50,396	(50,396)
Contributions - employer	-	72,500	(72,500)
Net investment income	-	174,667	(174,667)
Benefit payments, including refunds of employee contributions	(69,373)	(69,373)	-
Administrative expenses	-	(3,653)	3,653
Net changes	136,856	224,537	(87,681)
Balances, end of year	$ 1,984,069	$ 1,599,811	$ 384,258

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(in thousands)	2021 Total Pension Liability (a)	2021 Plan Fiduciary Net Position (b)	2021 Net Pension Liability (Asset) (a) - (b)
Balances, beginning of year	$ 1,738,257	$ 1,173,721	$ 564,536
Changes for the year			
Service cost	65,820	-	65,820
Interest on total pension liability	106,382	-	106,382
Effect of economic/demographic gains or losses	8,301	-	8,301
Effect of assumptions changes or inputs	(8,557)	-	(8,557)
Contributions - employee	-	47,987	(47,987)
Contributions - employer	-	59,072	(59,072)
Net investment income	-	160,402	(160,402)
Benefit payments, including refunds of employee contributions	(62,990)	(62,990)	-
Administrative expenses	-	(2,918)	2,918
Net changes	108,956	201,553	(92,597)
Balances, end of year	$ 1,847,213	$ 1,375,274	$ 471,939

Sensitivity Analysis — The following presents the net pension liability of Parkland, using the discount rate of 6.0%, as well as a calculation of the net pension liability if it were calculated using a discount rate that is one percentage point lower (5.0%) or one percentage point higher (7.0%) than the current rate.

September 30, 2022	Decrease to 5.0%	Current Rate 6.0%	Increase to 7.0%
Total pension liability	$ 2,270,046	$ 1,984,069	$ 1,749,473
Fiduciary net position	1,599,811	1,599,811	1,599,811
Net pension liability	670,235	384,258	149,662

During the years ended December 31, 2021 and 2020, $50.4 million and $47.8 million, respectively, of employee contributions were made in accordance with the contribution requirements described above. During the fiscal years ended September 30, 2022 and 2021, $50.7 million and $49.8 million, respectively, of employee contributions were made in accordance with the contribution requirements described above.

Parkland contributed approximately $72.5 million to the Plan during the year ended December 31, 2021, in accordance with contribution requirements determined by the January 1, 2021 actuarial valuation, including $12.6 million of surplus funding approved by the Board of Managers. Parkland contributed approximately $59.1 million to the Plan during the year ended December 31, 2020, in accordance with contribution requirements determined by the January 1, 2020 actuarial valuation.

An additional $55.4 million was contributed between January 1, 2022 and September 30, 2022 and $48.2 million between January 1, 2021 and September 30, 2021. These amounts were recorded as a deferred outflow of resources at September 30, 2022 and 2021, respectively.

For the years ended September 30, 2022 and 2021, Parkland recognized pension expense of $56.0 million and $72.0 million, respectively. As of September 30, 2022 and 2021, the deferred inflows and outflows of resources are as follows:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 16,679	$ 329
Changes of assumptions	68,054	4,514
Employer contributions subsequent to the measurement date	55,434	-
Net difference between projected and actual earnings on plan investments	-	151,671
	$ 140,167	$ 156,514

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,617	$ 587
Changes of assumptions	110,298	6,809
Employer contributions subsequent to the measurement date	48,175	-
Net difference between projected and actual earnings on plan investments	-	112,102
	$ 167,090	$ 119,498

At September 30, 2022 and 2021, Parkland reported approximately $55.4 million and $48.2 million, respectively, as deferred outflows of resources related to pensions resulting from Parkland contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability at September 30, 2023 and 2022, respectively.

Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2022, related to pensions will be recognized in pension expense as follows:

Years Ending September 30,	
2023	$ 18,128
2024	(41,732)
2025	(30,043)
2026	(18,134)
	$ (71,781)

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report is available on the Parkland website at ParklandHospital.com.

Defined Contribution Plan — Parkland also maintains voluntary defined contribution plans covering all employees with at least one year of service. The defined contribution plans include a 401(a), 403(b) and 457(b) plan, collectively the Supplemental Plans, and are administered by the Parkland Board of Managers ("Board"). The Supplemental Plans provisions and contribution requirements are established and may be amended by the Board. Eligible employees can choose to contribute from 2% to 20% of their base salaries. Parkland will match employees' contributions 100%, up to 6% of their base salaries. Employees are fully vested at all times in their voluntary contributions, plus earnings thereon. Vesting in Parkland's matching contributions is based on years of service. After one year of service, employees vest at the rate of 20% per year for five years. Should an employee terminate prior to vesting completely in Parkland's contributions, the unvested portion can be used to reduce Parkland's matching contributions in the aggregate.

Contributions for the year ended September 30, 2022, were approximately $30.5 million from Parkland and $70.5 million from employees. Contributions for the year ended September 30, 2021, were approximately $29.2 million from Parkland and $63.5 million from employees.

Note 8: Concentrations of Patient Accounts Receivable Credit Risk

Parkland grants credit without collateral to its patients, most of whom are Dallas County residents. The mix of receivables from patients and third-party payors, net of allowances for contractual adjustments and bad debts, as of September 30, 2022 and 2021, is as follows:

	2022		2021	
Medicaid	$ 60,098	34%	$ 48,790	27%
Medicare	46,861	26%	43,842	25%
Commercial insurance and other	69,625	39%	84,449	47%
Patients	409	1%	771	1%
Total	$ 176,993	100%	$ 177,852	100%

Note 9: Commitments and Contingencies

As a local governmental unit, Parkland is subject to the provisions of the Texas statute known as the Texas Tort Claims Act. Currently, Parkland's liability is limited under the Act to monetary damages in a maximum amount of $100,000 for each person, $300,000 for each single occurrence for bodily injury or death, and $100,000 for each single occurrence for injury to or destruction of property. These liability limitations apply to claims and lawsuits covered by the Texas Tort Claims Act and do not apply to other types of claims and lawsuits, including, among others, civil rights and employment related litigation.

As to litigation or other proceedings pending, or to its knowledge, threatened in any court, agency or other administrative body (either state or federal) that are not specifically disclosed in these footnotes, Parkland intends to vigorously defend these matters and pursue its counterclaims, if any. Furthermore, as to such matters Parkland is either currently unable to estimate the ultimate aggregate amount of monetary gain, loss or financial impact of these matters, or does not currently believe these proceedings will have a material adverse impact; provided, however, adverse resolution of these actions and counterclaims could have a material adverse effect on our business, financial condition or results of operations.

As of September 30, 2022, Parkland had construction commitments outstanding of $13.6 million related to various construction projects.

Note 10: Long-term Debt

Limited Tax Bonds — In 2009, Parkland issued three series of Dallas County Hospital District Limited Tax Bonds ("Bonds"), with a total principal amount of $705.0 million. Payment of principal and interest on the Bonds is supported by ad valorem tax revenue and federal subsidies under the Build America Bond program. In 2013, Parkland issued $38.3 million of Limited Tax and Revenue Bonds. In October 2019, Parkland refinanced the Series 2009B Bonds by issuing $191.4 million of Limited Tax Refunding, Series 2019 Bonds. The refinancing resulted in a net present value savings of $27.6 million. The Bonds are rated "AA-" by Standard & Poor's and "Aa2" by Moody's.

Tax-Exempt Series 2009A Bonds were issued with a total principal amount of $24.8 million with stated fixed interest rates ranging from 3.0% to 5.0%. These bonds matured from August 15, 2014 to August 15, 2016.

Taxable Series 2009B Bonds were issued with a total principal amount of $222.5 million, in accordance with the provisions of the Build America Bond program. These bonds bore interest at fixed interest rates ranging from 4.9% to 6.2% and were to mature from August 15, 2020 through August 15, 2034. The Taxable Series 2009B Bonds were refinanced on October 1, 2020 by the Limited Tax Refunding, Series 2019 Bonds.

Taxable Series 2009C Bonds were issued with a total principal amount of $457.7 million, in accordance with provisions of the Build America Bond program and bear interest at fixed interest rates ranging from 4.1% to 5.6%. These bonds mature from August 15, 2020 through August 15, 2044. The Taxable Series 2009C Bonds are subject to make-whole redemption prior to maturity at any time, in whole or in part, at the option of Parkland, at the greater of *(i)* the issue price of the principal amount redeemed, or *(ii)* the sum of the present value of the remaining scheduled payments of principal and interest at the Treasury Rate plus 25 basis points plus accrued interest.

Tax-Exempt Series 2013 Bonds bear interest at stated fixed interest rates between 4.0% and 5.0% and mature from August 15, 2020 to 2038 and are subject to redemption prior to maturity on August 15, 2023 or any date thereafter, in whole or in part, at the option of Parkland at the par amount plus any accrued interest. In August 2021, Parkland chose to defease in-substance the Tax-Exempt Series 2013 Bonds maturing on August 15, 2023 and after. The Tax-Exempt Series 2013 Bonds had an outstanding balance of $34.1 million at the time of defeasance. To defease the bonds maturing on August 15, 2023 and after, Parkland placed $34.4 million in escrow, which will be used to redeem the Series 2013 bonds in 2023. The in-substance defeasance resulted in a loss on reacquired debt using existing resources of $2.3 million. As of September 30, 2022, the outstanding balance of the Tax-Exempt Series 2013 Bonds maturing prior to August 15, 2023 totaled $1.3 million.

The Limited Tax Refunding, Series 2019 Bonds bear interest at stated fixed interest rates between 4.0% to 5.0% and mature from February 15, 2020 through August 15, 2034. The Series 2019 Bonds, with stated maturities on and after August 15, 2029, are subject to redemption prior to maturity on August 15, 2028 or on any date thereafter, in whole or in part, at the option of Parkland at the par amount plus any accrued interest. Payment of principal and interest on the Series 2019 Bonds are supported by a levy of ad valorem tax revenue.

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The following is a summary of long-term debt for the years ended September 30, 2022 and 2021:

	2022 Beginning Balance	Additions	Amortization	Reductions	2022 Ending Balance
Taxable Series 2009C Bonds	$ 409,205	$ -	$ -	$ -	$ 409,205
Tax-exempt 2013 Bonds	2,585	-	-	(1,325)	1,260
Tax-exempt 2013 Bonds premium	32	-	(17)	-	15
Tax-exempt 2019 Bonds	163,740	-	-	(14,300)	149,440
Tax-exempt 2019 Bonds premium	27,789	-	(3,685)	-	24,104
Total debt	$ 603,351	$ -	$ (3,702)	$ (15,625)	$ 584,024
Short-term debt					$ 16,410
Long-term debt					567,614
Total debt					$ 584,024

	2021 Beginning Balance	Additions	Amortization	Reductions	2021 Ending Balance
Taxable Series 2009C Bonds	$ 412,395	$ -	$ -	$ (3,190)	$ 409,205
Tax-exempt 2013 Bonds	35,220	-	-	(32,635)	2,585
Tax-exempt 2013 Bonds premium	571	-	(133)	(406)	32
Tax-exempt 2019 Bonds	174,385	-	-	(10,645)	163,740
Tax-exempt 2019 Bonds premium	31,788	-	(3,999)	-	27,789
Total debt	$ 654,359	$ -	$ (4,132)	$ (46,876)	$ 603,351
Short-term debt					$ 15,625
Long-term debt					587,726
Total debt					$ 603,351

Long-term debt maturities (including mandatory redemptions), interest payments, net of estimated subsidy, and total debt service at September 30, 2022 are as follows:

Years Ending September 30,	Payments and Mandatory Redemptions	Interest Payments	BAB Interest Subsidy	Total Debt Service
2023	$ 16,410	$ 31,399	$ (7,516)	$ 40,294
2024	15,835	29,112	(7,459)	37,489
2025	16,375	28,298	(7,201)	37,472
2026	19,505	27,443	(6,944)	40,003
2027	17,780	26,405	(6,602)	37,583
2028-2032	101,470	117,642	(32,060)	187,051
2033-2037	132,830	89,830	(28,906)	193,755
2038-2042	164,960	49,489	(16,334)	198,115
2043-2044	74,740	6,339	(2,092)	78,987
Subtotal	559,905	405,958	(115,114)	850,749
Bond premium	37,499	-	-	37,499
Accumulated amortization	(13,380)	-	-	(13,380)
Total	$ 584,024	$ 405,958	$ (115,114)	$ 874,868

Total interest costs were $28.9 million for fiscal year 2022 and $30.0 million for fiscal year 2021.

Note 11: Lease Liabilities

Parkland leases medical office, warehouse and office space, the terms of which expire in various years through 2037. During the years ended September 30, 2022 and 2021, Parkland recognized approximately $33,317 and $41,025, respectively, of rental expense for variable payments, short-term and cancelable leases that are not included in the measurement of the lease liability.

The following is a summary of lease liability transactions for the years ended September 30, 2022 and 2021:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2022	$ 56,431	$ 7,874	$ 18,840	$ 45,465	$ 7,298
2021	$ 45,232	$ 16,385	$ 5,186	$ 56,431	$ 6,632

The 2022 deduction includes the removal of a lease liability related to a lease asset that was purchased in 2022 in the amount of $12,337.

The following is a schedule by year of payments under the leases as of September 30, 2022:

Year Ending September,	Total to Be Paid	Principal	Interest
2023	$ 8,742	$ 7,298	$ 1,444
2024	8,056	6,772	1,284
2025	6,492	5,421	1,071
2026	6,317	5,448	869
2027	5,916	5,290	626
2028 - 2032	12,788	11,369	1,419
2033 - 2037	4,146	3,867	278
	$ 52,457	$ 45,465	$ 6,991

Note 12: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incident of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19. Parkland's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. Parkland has taken steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business.

Parkland received $134,957 in general and targeted Provider Relief Fund distributions provided for under the *Coronavirus Aid, Relief, and Economic Security ("CARES") Act* during the years ended September 30, 2022, 2021, and 2020. These distributions from the Provider Relief Fund are not subject to repayment, provided Parkland is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the U.S. Department of Health and Human Services (HHS).

Parkland is accounting for such payments as conditional contributions. Payments are recognized as other non-operating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on Parkland's operating revenues and expenses through September 30, 2022 and 2021, Parkland recognized $21.0 million and $63.8 million, respectively, related to the Provider Relief Fund, and these payments are recorded as grants and contributions nonoperating revenue in the statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of Provider Relief Funds received in advance in the accompanying statements of net position.

Parkland will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on Parkland's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If Parkland is unable to attest to or comply with current or future terms and conditions Parkland's ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Parkland provides certain support to Dallas County in relation to COVID-19 testing of Dallas County residents. Parkland received $13.1 million and $17.6 million in 2022 and 2021, respectively, from Dallas County for such support provided, which is included in other operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Note 13: GASB Statements Issued but not yet Effective

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94) provides uniform guidance on accounting and financial reporting for public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). As used in GASB 94, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use an infrastructure or other nonfinancial asset (the underlying PPP asset) for a period of time in an exchange or exchange-like transaction. GASB 94 also addresses APAs, which are arrangements where a government compensates an operator for services that may include designing, constructing, financing, maintaining or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction. This statement requires governments to report assets and liabilities related to PPPs consistently and disclose information about PPP transactions. The requirements of GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The changes would be applied retrospectively, if practicable, for all prior fiscal years presented. PPPs would be recognized and measured using the facts and circumstances that exist at the beginning of the implementation period or, if applicable to earlier periods, the beginning of the earliest period restated. In the year of adoption, the financial statement notes should disclose the nature of the restatement and its effect or the reason for not restating prior years presented.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (GASB 96) provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and 4) requires note disclosure regarding a SBITA. To the extent relevant, the standards for a SBITAs are based on the standards established in GASB 87. The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 101 – *Compensated Absences* (GASB 101) updates the recognition and measurement guidance for compensated absences under a unified model. It defines compensated absences and requires that liabilities be recognized in financial statements prepared using the economic resources measurement focus for leave that has not been used and leave that has been used but not yet paid or settled. A liability for compensated absences should be accounted for and reported on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus. GASB 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of GASB 101 are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The changes adopted at transition to conform to the provisions of GASB 101, should be reported as a change in accounting principle in accordance with GASB Statement No. 100, *Accounting Changes and Error Corrections*, including the related display and disclosure requirements.

Required Supplementary Information

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Year Ending September 30,
(In Thousands)

	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability								
Service cost	$ 68,967	$ 65,820	$ 51,517	$ 47,055	$ 44,516	$ 41,024	$ 39,886	$ 37,881
Interest on total pension liability	112,920	106,382	102,108	95,249	89,044	83,216	78,296	72,677
Effect of plan changes	-	-	-	-	(4,577)	-	-	-
Effect of economic/demographic gains or (losses)	15,847	8,301	(1,105)	7,645	8,896	2,439	(2,122)	8,589
Effect of assumption changes or inputs	8,495	(8,557)	207,476	(1,022)	-	-	-	-
Benefit payments	(69,373)	(62,990)	(56,859)	(53,984)	(49,645)	(44,312)	(49,392)	(32,637)
Net change in total pension liability	136,856	108,956	303,137	94,943	88,234	82,367	66,668	86,510
Total pension liability, beginning	1,847,213	1,738,257	1,435,120	1,340,177	1,251,943	1,169,576	1,102,908	1,016,398
Total pension liability, ending (a)	$ 1,984,069	$ 1,847,213	$ 1,738,257	$ 1,435,120	$ 1,340,177	$ 1,251,943	$ 1,169,576	$ 1,102,908
Fiduciary net position								
Employer contributions	$ 72,500	$ 59,072	$ 46,700	$ 40,000	$ 27,915	$ 28,083	$ 24,500	$ 22,812
Employee contributions	50,396	47,987	46,107	44,223	38,686	30,270	29,471	27,378
Investment income net of investment expenses	174,667	160,402	192,482	(51,594)	130,137	55,203	(7,945)	43,705
Benefit payments	(69,373)	(62,990)	(56,859)	(53,984)	(49,645)	(44,312)	(49,392)	(32,637)
Administrative expenses	(3,653)	(2,918)	(2,743)	(2,655)	(3,803)	(1,881)	(2,047)	(2,020)
Net change in plan fiduciary net position	224,537	201,553	225,687	(24,010)	143,290	67,363	(5,413)	59,238
Fiduciary net position, beginning	1,375,274	1,173,721	948,034	972,044	828,754	761,391	766,804	707,566
Fiduciary net position, ending (b)	$ 1,599,811	$ 1,375,274	$ 1,173,721	$ 948,034	$ 972,044	$ 828,754	$ 761,391	$ 766,804
Net pension liability = (a) - (b)	$ 384,258	$ 471,939	$ 564,536	$ 487,086	$ 368,133	$ 423,189	$ 408,185	$ 336,104
Fiduciary net position as of % of total pension liability	80.63%	74.45%	67.52%	66.06%	72.53%	66.20%	65.10%	69.53%
Covered employee payroll	$ 721,279	$ 706,911	$ 685,520	$ 659,891	$ 632,669	$ 613,367	$ 574,215	$ 554,120
Net position liability as a % of covered payroll	53.27%	66.76%	82.35%	73.81%	58.19%	68.99%	71.09%	60.66%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Parkland will present information for those years for which information is available.

Dallas County Hospital District
d/b/a Parkland Health
A Component Unit of Dallas County, Texas
Schedule of Employer Contributions
Year Ending September 30,
(In Thousands)

	2022	2021	2020	2019	2018	2017	2016	2015
Contributions in relation to the actuarially determined contributions	$ 72,500	$ 59,072	$ 46,700	$ 40,000	$ 27,915	$ 28,123	$ 24,500	$ 22,812
Actuarially determined contributions	59,916	59,072	37,005	28,827	27,915	28,083	24,540	22,812
Contribution surplus/deficit	$ 12,584	$ -	$ 9,695	$ 11,173	$ -	$ 40	$ (40)	$ -
Covered-employee payroll	$ 721,279	$ 706,911	$ 685,520	$ 659,891	$ 632,669	$ 613,367	$ 574,215	$ 554,120
Contributions as a percentage of covered-employee payroll	10.1%	8.4%	6.8%	6.1%	4.4%	4.6%	4.3%	4.1%

Notes to Schedule:

Valuation date:
Actuarially determined contribution rates are calculated as of January 1st one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contributions rates:

	2022	2021	2020	2019	2018	2017	2016	2015
Actuarial cost method	Entry age normal cost	Entry age normal cost	Entry age normal cost	Entry age normal cost	Entry age normal cost	Entry age normal cost	Entry age normal cost	Entry age normal cost
Amortization method	30 years, closed	30 years, closed	30 year, closed	30 year, closed	30 year, closed	30 year, closed	30 year, closed	30 year, closed
Asset valuation method	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in	5-year rolling phase-in
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	3.0%
Investment rate of return	6%, net of pension plan investment expense, including inflation	6%, net of pension plan investment expense, including inflation	6%, net of pension plan investment expense, including inflation	7%, net of pension plan investment expense, including inflation	7.25%, net of pension plan investment expense, including inflation	7.50%, net of pension plan investment expense, including inflation	7.75%, net of pension plan investment expense, including inflation	8%, net of pension plan investment expense, including inflation
Retirement age	65	65	65	65	65	65	65	65
Mortality	Pub-2010 Public General and MP-2021	Pub-2010 Public General and MP-2020	Pub-2010 Public General and MP-2019	Pub-2010 Public General and MP-2018	RP-2000, projected	RP-2000, projected	RP-2000, projected	RP-2000, projected

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Parkland will present information for those years for which information is available.

Internal Audit Services

Audit Follow-up Report Summary

October 12, 2022 – February 1, 2023

	Overall					Current Period Activity		
Session Type	Number of Audits	Number of Audits Greater than a Year Old	Number of Issues Reported	Number of Issues Addressed to Date	Number of Open Issues	Audits Closed During Period	Number of Issues Addressed	Number of Issues Where Management Accepted the Risk
Open Session	**3**	**3**	**14**	**9**	**5**	**0**	**1**	**0**
Executive Session	**7**	**2**	**41**	**19**	**22**	**1**	**8**	**0**

Parkland | *Care. Compassion. Community.*

Greater than 1 Year – Open Session

OPEN SESSION			
Audit	**Executive Sponsor**	**Total Observations**	**Completed Observations**
19-08 COPC	Richard Humphrey	4	3
19-12 Revenue Cycle	Richard Humphrey	3	2
20-11 Consignment Process	Richard Humphrey	7	4

Greater than 1 Year – Executive Session

EXECUTIVE SESSION			
Audit	**Executive Sponsor**	**Total Observations**	**Completed Observations**
17-23 Networked Medical Devices	Richard Humphrey	3	2
19-07 HIPAA Security	Richard Humphrey	7	7

Internal Audit Services
Follow-Up Report

OPEN SESSION
February 2023 Audit Committee

Audit	Issue	Action Detail	Status	Action Needed	Risk to Parkland if Corrective Actions are Not Implemented
19-08 COPC	19-08 Compliance with ABN Procedures and Regulatory Requirements	Action: 19-08 ABN Denial Review Process Action Owner: Eboni Joseph-Wilson Executive: Edmundo Castaneda Action Due Date: 3/31/2023 % Complete: 80	Next step includes: 1. Change the Charge Router Profile Procedure Substitution and complete testing. The ABN team is testing the Charge Router Profile and ensure that Parkland's ABNs are priced correctly. 2. Review Charge Substitution (EAP 901) and/or a Link Type (EAP 6667) of Charge Router to ensure those are configured correctly to work with the update. 3.The testing is an important step within this process and IT is identifying the resources to assist the team with testing. 4. Updating the Charge Router Profile Procedure Substitution (I UCP 108) to Linked Charges.	The ABN team has completed the following: 1. Determined roles and responsibilities regarding the National Correct Coding Initiative (NCCI) Local Coverage Determination (LCD) loads from Passport (An application to validate clinical orders against payer rules), 2. Identified the team that will be responsible for validating and communicating this information to the clinics and document the process. 3. Identify the team that document Parkland's new ABN process. 4. Purchased a National Correct Coding Initiative (CCI Load) to automate the triggering process.	Failure to implement corrective actions could result in non-compliance with federal/state billing regulations and could subject Parkland to regulatory sanctions, civil and/or criminal penalties and negative publicity. If under billing it would result in lost revenue.
19-12 Revenue Cycle	19-12 Missing Charges	Action: 19-12 Supply Charges and Drug Administration Charges - Perioperative Services Action Owners: Donna Hale Executive: Donna Richardson Action Due Date: 6/30/2023 % Complete: 75	The Clinical Bridge team met on 01/17/2023 to transition roles and responsibilities from IT to the Peri-Op Management team. Weekly meetings will be scheduled with the supporting departments to review progress and readiness for submitting supplies to IT for loading to the Clinical Bridge.	The Clinical Bridge Interface team needs to load the remaining OR Clinical Bridge locations and determine the remaining OR supplies that need to be loaded into the Clinical Bridge. Phase 1 has been completed and accomplishments include: 1. The Clinical Bridge is up and running 2. 375 OR supplies are processing successfully 3. 17 chargeable GI Lab supplies are available for IAS to test 4. The completion, documentation, approval and publication of the OR Clinical Bridge - New Supply Request Workflow	Failure to implement corrective actions could result in non-compliance with federal/state billing regulations and could subject Parkland to regulatory sanctions, civil and/or criminal penalties and negative publicity. If under billing it would result in lost revenue.
20-11 Consignment Process	20-11 Pricing Inconsistencies Were Identified	Action: 20-11 Pricing Inconsistencies - Perioperative Services Action Owner: Mary Alexander Executive: Pamela Bryant Action Due Date: 6/30/2023 % Complete: 75	IAS retested and identified a control gap on how the latest contract price is not being pulled correctly from INFOR into EPIC. On 7/14/2022 the 7 outlier vendor items identified during retesting were added to both the Main OR and Cardiac Cath locations and contract prices are now updated daily during the 6:00 am interface run.	Supply Chain - Needs to develop a system to ensure prices for consignment items are current and updated in INFOR, and to ensure current contract prices are reflected in INFOR. There is a flag in INFOR to ID consignment; however, Supply Chain is not currently using. Supply Chain wants to implement a Perpetual Inventory System and work with INFOR to identify and separate Consignment from Parkland Owned supplies.	Failure to implement corrective actions could result in non-compliance with federal/state billing regulations and could subject Parkland to regulatory sanctions, civil and/or criminal penalties and negative publicity. If under billing it would result in lost revenue. Potential of co-mingling consignment with Parkland owned supplies. Potential of not being able to determine consignment expenditures if combined with Parkland owned inventory. Potential negative publicity associated with non-compliance with billing regulations.
	20-11 The Recall Process Is Decentralized	Action: 20-11 The Recall Process Is Decentralized Action Owner: Michael Lane Executive: Roberto de la Cruz Action Due Date: 2/28/2023 % Complete: 40	A team representing Quality & Safety Operations, Safety & Clinical Risk Management and Supply Chain has completed a cross walk of Parkland's current Recall process design and organizational reporting policies and have aligned them. The team identified a gap in the stated policies and that there is not a clinical assessment for timing of removing items from shelves, need for patient disclosure, etc. The team has begun initial work on mapping out the clinical/risk component which will be reviewed by Supply Chain and other stakeholders for discussion.	Quality & Safety Operations, Safety & Clinical Risk Management and Supply Chain need to centralize the recall process and finalize the recall policy.	Potential patient safety if the identification of recall products are not identified and communicated to the affected providers and patients. Potential for inconsistent oversight, management, documentation of issues and corrective response. Potential negative publicity associated with non-compliance with patient safety recall communication and processes.

Internal Audit Services
Follow-Up Report

OPEN SESSION
February 2023 Audit Committee

Audit	Issue	Action Detail	Status	Action Needed	Risk to Parkland if Corrective Actions are Not Implemented
	20-11 Tracking and Monitoring of Consignment Items Were Lacking	Action: 20-11 Tracking and Monitoring of Consignment Items were Lacking Action Owner: Mary Alexander Executive: Pamela Bryant Action Due Date: 2/28/2023 % Complete: 75	a. Supply Chain met the 6/30/2022 Action Due Date for implementing a process to identify Consignment inventory in the Peri-Op areas. IAS validated the signage in IR, Cath Lab and Perioperative areas on 6/16/2022. A work paper was submitted to IAS management for review and this action has been marked as "Complete". b. Supply Chain is also working with INFOR to determine system capabilities for identification of consignment products and identify plans for implementation. However, this project will not begin until after Parkland has implemented a Perpetual Inventory System.	Supply Chain needs to implement a Perpetual Inventory System and work with INFOR to identify and separate Consignment from Parkland Owned supplies.	Potential non-compliance with federal/state billing regulations could subject Parkland to regulatory sanctions, and civil and/or criminal penalties. Potential of over/under billing. Potential of co-mingling consignment with Parkland owned supplies. Potential of not being able to determine consignment expenditures if combined with Parkland owned inventory.

Parkland

Audit Title	Objective	Significance	Results/Conclusion	Follow-up
Importance Rating – High				
22-01 Employee Health Plan	The objective of the review was to determine the following: 1) are claims settled in accordance with the Plan Benefit, 2) are invoiced administrative services fees deemed complete and accurate, and 3) are Health Plan reserves adequate for ensuring services for all covered members.	This area received a High-risk rating for importance due to the significant financial impact to the District and the added value benefits provides to the employee experience.	Administration of the Employee Health Plan is in accordance with the purpose and benefits contained in Parkland's self-funded plan; however, inconsistent compliance with coverage criteria and limited oversight of TPA processes poses a risk to Parkland resources and could negatively impact both provider and employee satisfaction. Opportunities exist for enhanced monitoring by Parkland of both UMR and MedImpact services. Audit results included settlement of claims that did not comply with Parkland's Benefit Plan including: • Settlement of Pharmacy claims in which benefit parameters were incorrect in the claims payment system • Pharmacy claims covered at 100% based on the member having met an out-of-pocket max threshold outdated for the audit period • Claims covered at 100% with unmet deductible and no application of coinsurance related to the Tier accessed • Ambulance claims covered that did not meet medical necessity per the Plan Benefit **Performance Rating: High**	**Committee** None **IAS** Routine Follow-up process

Audit Title	Objective	Significance	Results/Conclusion	Follow-up
22-03 Procurement and Contracting	The objectives of this audit were to determine whether Construction and IT procurement complied with policies and procedures, and whether internal controls were effective around requisitions, solicitations, bidding, evaluations, and awards.	This audit received a high-risk importance rating because the procurement system is pivotal to smooth running operations of Parkland Health, and procurement is the second largest expenditure of Parkland Health.	This area received a medium risk performance rating because overall, policies and procedures were generally followed while a few opportunities for improvement were identified. **Performance Rating:** Medium	**Committee** None **IAS** Routine Follow-up process
22-16 UTSW Master Service Agreement – CVTS Process	The purpose of this review was to ensure that the referral process for patient CVTS services were meeting the time guidelines and that the claims submission process for both institutional and professional fees met the claims submission requirements of the MSA and CMS. Random samples of CVTS claims paid between October 2021 and July 2022 submitted by UTSW were randomly selected using RatStats. The place of service (POS)was used to stratify by inpatient, outpatient, and emergency services.	This area received a high-risk rating for importance due to Parkland's obligation to provide safe, quality patient care while adhering with claims submission requirements of the MSA and Centers for Medicare and Medicaid Services.	Overall, the process for prior authorization of CVTS services is working according to processes and procedures. Patients that have been referred for services are being seen within the timeframes outlined. All payments made for inpatient claims and professional fees were made in a timely manner. **Performance Rating:** Low	**Committee** None **IAS** Routine Follow-up process
Importance Rating – Medium				
22-11 Physical Inventory, Fiscal Year 2022	The objectives of the audit were to evaluate, for accuracy, the fiscal year-end physical inventory counts of Pharmacy Services and MRD, and to evaluate operational and system processes as they relate to inventory valuation for Parkland's financial statements.	This area received a medium risk rating for importance due to the potential impact to Parkland's financial statements and the ability to manage Parkland's supply and pharmacy inventories, which can potentially impact patient care.	Overall, improvements are needed to address current inventory practices. Inventory controls may not be effective as indicated by the variance between shelf counts and system data requiring significant adjustments. Additionally, over $15 million in drugs and supplies counted were expensed when received resulting in undervalued assets and overstated expenses in Parkland's financial statements. The pharmacy inventory count performed by Syft and the MRD warehouse inventory count met expected accuracy thresholds. **Performance Rating:** Medium	**Committee** None **IAS** Routine Follow-up process

Prepared By
Vic Summers

Prepared For
Audit Committee Meeting
February 2023

Audit Title	22-01 Employee Health Plan Audit
Performance Rating - Importance Rating	High - High
Audit Group	Internal Audit
Audit Start Date	02/01/2022
Audit End Date	02/08/2023
Auditors	D'Les Jones, Senior Compliance Auditor
Audit Type	Annual Audit Plan

Distribution List

Frederick Cerise, MD	President and Chief Executive Officer
Edmundo Castañeda, FACHE	Executive Vice President and Chief Operating Officer
Richard Humphrey, MBA	Executive Vice President and Chief Financial Officer
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Background

Parkland Health (Parkland) contracts with Third Party Administrators (TPA) UMR and MedImpact for management and settlement of employee health and pharmacy claims, respectively. Both contracts became effective January 1, 2011. Each TPA contracts with various providers and pharmacies for the purpose of providing covered benefits to eligible members. In addition to monthly administrative services, UMR and MedImpact are responsible for settling claims in accordance with Parkland's Medical and Pharmacy schedule of benefits. UMR is also designated as the Plan's COBRA Administrator.

Parkland offers benefits under a three Tier program: Tier 1- services provided at a Parkland Health Network location (includes Children's Medical Center and UTSW), Tier 2- services provided at a participating Benefit Panel Network (United Choice Plus) location and Tier 3 – services provided at an Out-of-Network location. Coverage level of services is directed by the Tier accessed and may be subject to deductibles, copays, and prior authorization, depending on the type of service received.

Audit Purpose/Rationale

Internal Audit Services (IAS) performed a review of the Parkland Employee Health plan as part of the annual audit plan. The review was conducted to determine the following: 1) are claims settled in accordance with the Plan Benefit, 2) are invoiced administrative services fees deemed complete and accurate and 3) are Health Plan reserves adequate for ensuring services for all covered members.

IAS performed a review of UMR and MedImpact claim payments for the period covering January 2021 through December 2021. A random sample of 120 health claims was selected to ensure settlement adhered to the Parkland Health Benefit Plan. Similarly, all 2021 Pharmacy claims were reviewed to ensure the member's portion of the claim settlement adhered to the Parkland Pharmacy Benefit Plan. Note: The TPA's negotiated payment rate with providers and drug manufacturers was not disclosed for the audit. As such, IAS's review of payments was limited to validation of the provider's payment in relation to the member's portion, when applicable. Validation of payment rates for the providers and drug manufacturers sampled in this audit will be confirmed by an independent contractor and certified under a separate project.

IAS reviewed for the following attributes:

A. Member Eligibility
B. Provider Credentialing
C. Provider Sanction Screening
D. Prior Authorization, when applicable
E. Timely submission of claims
F. Timely payment of claims
G. Accuracy of claim payments

Performance Risk Rating: **High**

This audit received a High-risk rating due to weak safeguards to ensure all claims are paid according to Service Tier and Coverage level for the service provided.

Importance Risk Rating: **High**

This area received a High-risk rating for importance due to the significant financial impact to the District and the added value benefits provides to the employee experience.

Risk Rating Legend

Top Performance	• Controls are functioning as intended • Corrective action plan, if any, is simple	99-100
Low Risk	• Zero or minor weaknesses identified • Controls are functioning with minor errors or gaps identified • Corrective action plan, if any, is straightforward	95-98
Medium Risk	• Controls are present, but not yet effective or sufficient and major issues noted that could jeopardize the accomplishment of business objectives • May include a pattern of multiple minor weaknesses or newly identified findings • Corrective action plan to remediate will be moderately complex	90-94
High Risk	• Controls not yet identified, not yet implemented, ineffective or insufficient; not functioning as intended and is a contributing factor to non-achievement of business objectives • May include a pattern of moderate or significant weakness such as “second generation” findings • Corrective action plan to remediate will be complex	Below 90

Audit Conclusion

Overall, administration of the Employee Health Plan is in accordance with the purpose and benefits contained in Parkland’s self-funded plan; however, inconsistent compliance with coverage criteria and limited oversight of TPA processes poses a risk to Parkland resources and could negatively impact both provider and employee satisfaction. Opportunities exist for enhanced monitoring by Parkland of both UMR and MedImpact services. Audit results included settlement of claims that did not comply with Parkland’s Benefit Plan including:

- Claims covered at 100% with unmet deductible and no application of coinsurance related to the Tier accessed
- Claims covered at 100% based on the member having met an out-of-pocket max threshold outdated for the audit period
- Ambulance claims covered that did not meet medical necessity per the Plan Benefit
- Pharmacy claims in which benefit parameters were incorrect in the claims payment system

The TPA’s negotiated payment rate with providers and drug manufacturers was not disclosed for the audit, as such, rates will be confirmed by an independent contractor and certified under a separate project.

Concerns related to timely payment of UMR claims, sanction screening of Tier 2 Providers and validation of both UMR and MedImpact Administrative Service Fees will be addressed in a Management Letter.

Areas where controls are functioning as intended include the following:

Top Performance

- Member Eligibility
- Prior Authorization obtained for Inpatient services
- Timely submission of claims
- Adequacy of Health Plan reserves for ensuring services for all covered members

Issues/Findings

Issue 1: **MedImpact claim payments are not consistently settled in accordance with Parkland's Pharmacy Benefit Plan**
Risk Rating: **High**
Risk: **Services were settled at an incorrect amount impacting both Plan expense and member responsibility**

For 19,091 of 196,518 , (10%) pharmacy claims, IAS was unable to validate the member's portion of the payment for the fill location, product type and drug category. IAS randomly selected an additional sample of 30 Parkland claims, 30 Walgreens claims, 30 MedImpact Broad Network claims, 10 Zero Pay claims and 10 Non-Drug claims for further review.

1. Claims were settled using an outdated out-of-pocket max threshold. For 2 Parkland claims, 5 Walgreens claims and 4 MedImpact Broad Network claims, members were charged a zero-dollar copay or an amount less than the directed copay due to meeting a $4,250 out-of-pocket max. The threshold applied to these accounts during the audit period did not match the Tier 1 $2,500 or Tier 2 $6,000 out of pocket max as directed by Parkland's Benefit plan for 2021.

2. MedImpact Broad Network claims were settled using incorrect payment parameters. For 26 of 30, (87%) claims reviewed, linking for the National Pharmacy Network (PMH01NAT) benefit was not up to date in MedImpact's claims payment system and did not process in accordance with Parkland's Plan benefit. The National Pharmacy Network identifies pharmacies that participate in servicing your pharmacy plan.

Recommendation

Ensure current coverage parameters have been communicated to the TPA and Pharmacy claims are settled in compliance with Parkland's pharmacy schedule of benefits. i.e., Coverage level applicable for the fill location, product type and drug category.

Issue 2: **Limited oversight of TPA processes**
Risk Rating: **High**
Risk: **Claims were settled at the incorrect amount**

Overall, IAS saw limited evidence of a detailed claims review process.

Parkland does not monitor settlement of medical and pharmacy claims. Parkland contracts with a vendor for health and welfare consulting services including actuarial and strategic analysis of the employee benefit plans, benchmarking on plan design, assistance in the cost and service review of third-party vendors, and for support with compliance and reporting on all laws and regulations that cover the District plans. The vendor, Lockton Companies, LLC during the 2021 audit period and Marsh and McLennan Agency (MMA) contracted February 1, 2022, assists Parkland in reporting and trending of claims. All claims are summarized on both a monthly and year to date basis and annual spend is

compared to budget. High dollar cases by type are detailed to aid in review and projection of plan performance; however, there is no validation of claims settlement to the Benefit Plan.

Parkland Talent Management does assist employees with questions raised regarding the benefit and service Tier accessed in relation to how the claim was settled. i.e., coverage level and the member's portion of the claim.

Recommendation

Ensure TPA processes are monitored on a routine basis.

Issue 3: **UMR claim payments are not consistently settled in accordance with Parkland's Medical Benefit Plan**
Risk Rating: **Low**
Risk: **Claims were settled at an incorrect amount impacting both Plan expense and member responsibility**

In review of claims, IAS noted the following:

1. Claims were overpaid due to unmet deductible. For 4 of 120, (3%) claims reviewed, the Plan covered the claim at 100%. The claim was overpaid due to unmet deductible and depending on the Tier accessed and type of service provided, the Provider and Member's portion of the claim did not agree to the coverage percentage directed by the Plan.

2. Inaccurate billing and inconsistencies in the Benefit Plan as it relates to coverage of Mental Health Therapy Benefits and PT, OT and Speech Therapy Benefits provides opportunity for error in claim settlement. IAS observed the following:

    - The Billing provider on an Outpatient Ancillary service claim (Anesthesia) submitted the bill with an incorrect place of service. i.e., an inpatient place of service was billed for an outpatient hospital same day surgery. UMR stated they do not question the place of service billed unless they can determine what service was provided through comparison of related claims for the same date of service. Depending on the service provided, the member's portion of the claim could be impacted by an incorrect place of service billed on the claim.

    - Mental Health services provided in an office setting are covered 100%, after a $20 copay; however, the copay is not applicable when there is no Office Visit CPT coded on the claim. This is inconsistent with PT, OT and Speech benefits which are subject to a $20 copay whether there is an Office Visit CPT coded on the claim or not.

3. Ambulance claims were paid that did not meet Parkland's ambulance coverage criteria. Per the Health Plan Benefit, ambulance claims are covered for emergency transports and transport from Parkland to another hospital. Two claims were paid for non-emergency transports (transportation for a hospital discharge and from a residential facility to a physician's office) and one claim was paid for response and treatment with no transport. UMR stated these claims had been reprocessed denying payment and requesting medical records for review. UMR did not provide support for recoup of the Provider's payment. Additionally, UMR agreed to perform a review of all 2021 Ambulance claims.

Recommendation

Ensure medical claims are settled in compliance with Parkland's medical schedule of benefits. i.e., Coverage level directed by the Tier accessed and subject to deductible and coinsurance applicable to the type of service provided. The medical schedule of benefits should be reviewed for these areas to ensure benefits are clearly detailed for all provisions of care.

Management Response

Tawana McCullough, Senior Director, Benefits and Shared Services

Issue 1: MedImpact claim payments are not consistently settled in accordance with Parkland's Pharmacy Benefit Plan

Action Plan: Monthly plan review meetings will continue with MedImpact. In addition, it will be required that each quarter the Benefits Department, Employee Health Center team and Parkland's Pharmacy team meet with MedImpact to review a sampling of claims to include but not be limited to the following categories: PPO, HDHP, Diabetes, Specialty, non-formulary, formulary drugs, deductibles, out of pocket, and vaccines. In addition, domestic (Tier 1) and non-domestic claims (Tier 2) will be reviewed.

Included in the sampling of claims, during the review, screenshots will be taken to further verify results.

Annually, prior to the new plan year, the pharmacy benefit structure will be shared with MedImpact regardless of if Pharmacy changes will be made for the upcoming plan year. A review of the structure will ensure that claims are being paid in agreement with the benefits plan.

These steps are being taken to ensure that the claims process is in accordance with Parkland's Employee Health Plan.

Target Completion Date: July 1, 2023

Short Term Approach – 6 months to 1 year

- Meet monthly with MedImpact to review issues
- Meet quarterly with MedImpact to review tested records and various claims scenarios based on the criteria requested by Parkland on an annual basis, review claims with MedImpact and obtain screenshots of the tested records

Long Term Approach – 1 year

- Release RFP for a Pharmacy Benefit Manager – January 2023
- In 2023, revisit Pharmacy plan design to improve health outcomes for employees

Issue 2: Limited oversight of TPA processes

Action Plan: Monthly meetings are currently held to discuss issues that have arisen regarding claims, plan language and/or product functionality. The administration of complex claims is handled on a claim-by-claim basis. An analysis is performed on difficult claims issues.
These steps are being taken to ensure that the claims process is in accordance with Parkland's Employee Health Plan intent.

Target Completion Date: July 1, 2023

Short Term Approach – 6 months to 1 year and ongoing

- Continue monthly meetings with vendors
- Continue to monitor monthly Administrative Fees
- Meet vendors onsite at Parkland quarterly to conduct quarterly audits
- Engage outside Claims auditors to conduct annual review of medical claims

Issue 3: UMR claim payments are not consistently settled in accordance with Parkland's Medical Benefit Plan

Action Plan: In addition to the monthly plan review meetings currently held with UMR, Parkland will require a quarterly review of claims with an onsite visit with UMR to review claims audit results. During the quarterly review, we will require a review of a sample of domestic and non-domestic claims along with the appropriate Explanation of Benefits (EOBs).

The quarterly review will include, but not limited to member deductibles/out of pockets, claim holds, and ambulance claims. We will test Tier 1 - services provided at a Parkland facility, Tier 2 – services provided with a facility other than Parkland and is in UMRs network, and Tier 3 – service provided by physicians or facilities not in Tier 1 or Tier 2 (out of network). Claims will be verified for correct and timely payments.

On an annual basis, prior to the new year, the Benefits Department will conduct an annual benefit structure review with UMR to ensure appropriate plan designs are accurately set up in the UMR system. Parkland will require system screenshots and confirmations from UMR of all tested records.

These steps are being taken to ensure that the claims process is in accordance with the Employee Health Plan Summary Description.

Target Completion Date: July 1, 2023

Short Term Approach – 6 months to 1 year

- Continue monthly meetings with UMR to review claims experience and address any outstanding issues
- Meet onsite quarterly with UMR to review tested records and various claims scenarios based on the criteria requested by Parkland
- On an annual basis review claim system set up with UMR and obtain screenshots of the tested records

Long Term Approach

- Release RFP for Health Plan Administrator to provide proactive plan management -January 2023
- In 2023, revisit Employee Health plan design to improve health outcomes for employees for plan year 2024

Prepared By
Vic Summers

Prepared For
Audit Committee Meeting
February 2023

Audit Title	22-03 Procurement and Contracting Audit
Performance Rating - Importance Rating	Medium - High
Audit Group	Internal Audit
Audit Start Date	04/19/2022
Audit End Date	02/08/2023
Auditors	Cyril Ogbesetuyi, Senior Internal Auditor
Audit Type	Annual Audit Plan

Distribution List

Frederick Cerise, MD	President and Chief Executive Officer
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John Wilson	Director, Planning, Design and Construction Services

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Background

Parkland's procurement and contracting process is guided primarily by its Purchasing Practices and Procedures Manual (Procurement Manual). The procurement manual and policies provide guidance for the process including requisition, advertising/solicitation, evaluation, notice of award, and vendor registration.

Requisition: All procurements are initiated by a requisition in Infor (Parkland's financial and accounting system) and subsequently released for approval. If the requisition is approved by the financial analyst, the Director of the cost center reviews and approves. For requisitions over $50,000 or sole source or emergency requests, the Vice President of the cost center approves.

Advertising/Solicitation: Notice to vendors to participate in a contracting opportunity are open for a minimum of 14 days. Invitations for bids, requests for proposals, a request for quotations or qualifications must be posted on a publicly accessible internet location on the Parkland Health Website and in a second public source (newspaper, commercial bid posting service, etc.) to provide notification to prospective vendors. Notices shall describe the property, service, or construction desired and may contain other appropriate information.

Evaluation: Requests for proposal or request for qualifications are evaluated based on factors included in the solicitation document. Evaluation factors are pre-defined, and scores are assigned on this basis and ranked from the highest scorers to the lowest. The result is used in determination of the prospective winning vendor.

Notice of Award: A notice of award is communicated to the selected vendor, the other potential vendors who participated in the process, and to the public. A notice of award serves to identify the vendor selected based on evaluation criteria.

Vendor Registration: All vendors are required to register through ***SymplR,*** whether conducting business or presenting to discuss opportunities for business. Once vendor registration is completed and the Director of Accounts Payable approves, a vendor is deemed registered and eligible for contract opportunities.

Supply Chain determines the method of acquiring the requested services or goods using the procurement manual**.** The most common procurement strategies used to acquire goods, services, equipment, and construction include request for proposal, request for qualification, invitation for bid and sole source.

Request for Proposal: A request for goods or services includes all documents used for soliciting competitive sealed proposals, and includes information needed from prospective vendors and selection procedures to be used.

Request for Qualification: A request is sent out for a qualification from multiple vendors to determine the best qualified vendor to fulfill the requisition.

Invitation for Bid: Specifications are developed and released for bid. Price is the determining factor.

Sole Source: The contract is for services or property for which there is only one source, or it is impracticable to obtain competition as defined by the Procurement Manual. Sole source conditions must be satisfied and approved. There must be justification for sole source selection, and it must be documented and communicated to the Board quarterly.

Procurement of goods and services is the second largest expenditure (30%) of Parkland Health after salaries and wages (56%) as shown in the FY22 Financials. Supply Chain Administration ensures that goods and services, construction and repairs needed for smooth operations are available on time, and in the quantity and quality needed to meet the needs of our patients and staff.

Audit Purpose/Rationale

The objectives of this audit were to determine whether Construction and IT procurement complied with policies and procedures, and whether internal controls were effective around requisitions, solicitations, bidding, evaluations, and awards.

The scope of the audit included a review of contract awarded for the period from January 1, 2021, through September 30, 2022, and the review, requested by Parkland's Board of Managers, was limited to procurement activity within Construction and Information Technology. To achieve the audit objectives, Auditors performed the following:

- Conducted interviews with Design and Construction, Information Technology, Accounts Payable, Supply Chain, Inclusion and Supplier Diversity for understanding of Department operations and related internal controls.
- Attended Public bid openings to verify compliance with Bid opening procedures and documentation.
- Reviewed procurement files and contract documentation in Infor, Parkland Network, and Prolog to ensure adequate supporting documentation exists.
- Obtained and reviewed training on MWBEs from Inclusion and Supplier Diversity to ensure training policy requirements were met.
- Reviewed requisitions and approval procedures to determine existence of separation of duties and authorized approvals.
- Reviewed emergency and sole source procurement and periodic reports to the Board to ensure compliance with policy.
- Reviewed MWBEs solicitations and award to Minority and Women owned Business Enterprises (MWBE) to ensure compliance with MWBE policies and goals for minorities and women owned businesses in procurement contract awards.
- Reviewed scoring criteria for solicitations and confirmed awards were based on the scoring and ranking.
- Reviewed sampled construction and IT projects for compliance with contract terms and procurement policy.
- Reviewed vendors registration procedures to ensure only registered contractors in good standing are awarded contracts, to ensure W-9 forms are obtained as required by policy, and to ensure supporting documentation is adequate.

Performance Risk Rating: **Medium**

This area received a medium-risk performance rating because overall, policies and procedures were generally followed while a few opportunities for improvement were identified. For example, notices of award should be posted as required by the procurement manual.

Importance Risk Rating: **High**

This audit received a high-risk importance rating because the procurement system is pivotal to smooth running operations of Parkland Health, and procurement is the second largest expenditure of Parkland Health. Supplies and contracts are susceptible to waste, abuse, and shrinkage.

Risk Rating Legend

Top Performance	• Controls are functioning as intended • Corrective action plan, if any, is simple	99-100
Low Risk	• Zero or minor weaknesses identified • Controls are functioning with minor errors or gaps identified • Corrective action plan, if any, is straightforward	95-98
Medium Risk	• Controls are present, but not yet effective or sufficient and major issues noted that could jeopardize the accomplishment of business objectives • May include a pattern of multiple minor weaknesses or newly identified findings • Corrective action plan to remediate will be moderately complex	90-94
High Risk	• Controls not yet identified, not yet implemented, ineffective or insufficient; not functioning as intended and is a contributing factor to non-achievement of business objectives • May include a pattern of moderate or significant weakness such as “second generation” findings • Corrective action plan to remediate will be complex	Below 90

Audit Conclusion

Overall, an established framework exists for IT and construction procurement and contracting processes, and policies and procedures were generally followed. However, a few opportunities for improvement were identified:

Internal controls should be reviewed to strengthen processes ensuring adequate separation of duties for procurement approvals. Currently, approvals routing through Infor (Parkland’s Financial and Accounting System) are not adequately separated. However, mitigating controls outside the Infor system approval function were observed including email documentation and notes in the system regarding approvals. Ideally, appropriately segregated approvals would route through the system.

The committee evaluation forms should be consistently completed to ensure adequate documentation of the vendor selection process.

Additional advertising sources could be beneficial to increasing Vendor Participation in the procurement process. Currently, the practice is to ask the requesting area for vendors to include. While this is an appropriate process, it is not a part of the procurement guidance, and it is not consistently documented.

Areas where controls function as intended include the following:

- Construction consideration of MWBE at 30% or more of the contracts reviewed.
- The final score ranking matched awards in contracts reviewed.
- Sole source and Emergency procurements have justifications and are periodically reported to the Board.

Issues/Findings

Issue 1: **Requisition Approvals**
Risk Rating: **Medium**
Risk: **Without adequate separation of duties, unauthorized purchases could occur**

A separation of duties issue was identified for IT procurement requisition approvals. The same individual served as both requestor and approver for three requisitions, and approvals occurred at two distinct levels for another requisition resulting in 4 separation of duties concerns of 30 (13%) items tested. For all 4 items with separation of duties concerns, there were notes from management in the requisition explaining why the approvals occurred which mitigates the risk of unauthorized purchases.

Separation of duties is a fundamental requirement for effective internal controls. The cause of the issue is that a requester also has approval privileges at multiple levels of authority. Without proper segregation of duties, a sole employee could make unauthorized purchases without the knowledge of their superiors.

Recommendation

Administrative and system boundaries should be reviewed and established between a requester and someone approving a requisition or a purchase order. No employee should have more than the privilege needed to perform their responsibilities. If this lack of segregation is necessary for operations, then another control should be implemented to monitor the individual's activity.

Issue 2: **Advertising Procurement Opportunities to Vendors**
Risk Rating: **Low**
Risk: **If publicity is not adequate, the pool of vendors available for selection may be limited which may not result in selection of the best vendor, the best price, or the best results for Parkland.**

Currently, Parkland policy for advertising procurement opportunities to vendors is being followed, and the following sources are used to advertise:

A. Supplier Portal (Parkland)
B. Daily Commercial Record (News)

Additional advertising sources could be beneficial to increasing vendor participation in the procurement process. Currently, the practice is to ask the requesting area for vendors to include. While this is an appropriate process, it is not a part of the procurement guidance, and it is not consistently documented

Recommendation

Consider expanding advertising of procurement opportunities to include publications in widely circulated news outlets so that members of public who may not have any need to visit Parkland supplier portal or the Daily Commercial Record can be informed to further entrench Parkland
Diversity and inclusion policies.

Issue 3: **Evaluation Forms were Incomplete**
Risk Rating: **Low**
Risk: **Incomplete documentation may limit Parkland's ability to defend a legal challenge with an unselected vendor.**

Evaluation Forms were Incomplete—IT evaluation forms reviewed for 3 of 7 RFPs were missing information, and 1 of 7 RFPs was missing evaluation forms. The three evaluation forms with missing information are missing the names of evaluators and dates of evaluation.

Recommendation

Establish a process to revisit evaluation forms for accuracy of calculations and completion of evaluation forms as a precursor to award of contract.

Issue 4: **Notices of Award**
Risk Rating: **Medium**
Risk: **Transparency and fair competition may not be achieved, and records retention requirements may not be met**.

Notices of award were not found for 4 of 7 IT RFPs reviewed and notices of award were not found for any of the 3 Construction RFPs reviewed. These notices were missing from the project folders on the supply chain drive where they are usually maintained. *Texas Government Code, Chapter 552, and Section 1-401 of the Procurement manual give the citizens and residents the right to access government records and require prompt release of requested information.* Also, information missing or unavailable cannot be promptly released, and records retention requirements may not be met.

The process also requires Notice of Awards to be posted on Parkland's Supplier Portal, and according to Supply Chain Administration, the person responsible for posting is no longer with Parkland and the process was not actively in place during FY 2022.

Recommendation

Contract completion and monitoring checklist should be developed. A postmortem review of contract files and folders should be done after each contract is awarded.

Management Response

Issue 1: **Requisition Approvals**

Action Plan:

Target Completion Date:

Issue 2: **Advertising Procurement Opportunities to Vendors**

Pamela Bryant, Senior Vice President and Chief Supply Chain Officer

Action Plan: In addition to the actions noted, the Contract Team members contact the Diversity Team for a list of potential MWBE vendors in the market that could provide the good/service or provide subcontracting services for a portion of the statement of work. This list is sent to the Contract Team member and a separate email is sent to all vendors listed. The Diversity team also notifies multiple business advocacy groups including, but not limited, to the Dallas Black, Hispanic and Asian Chambers and the regional Black and Hispanic Contractors Associations, of the opportunity for them to distribute to their respective members. During the Contract Team meeting on 12/8 (agenda item 6a) we discussed the situation with a reminder to keep the lists of vendors from the business owners and Diversity team in the project folder. Adding additional advertising avenues would increase costs significantly.

Target Completion Date: Completed

Issue 3: Evaluation Forms were Incomplete

Pamela Bryant, Senior Vice President and Chief Supply Chain Officer

Action Plan: The incidents noted as evaluation forms being incomplete were the result of scoring sheets in Excel where the evaluators name and date, while noted on the first tab was not completed on subsequent tabs within the scoring sheet for each vendor. During the Contract Team meeting on 12/8 (agenda item 6b) we discussed the situation with a reminder to ensure that all data fields are completed on each tab and potentially "linking" cells from the first tab to succeeding tabs, reducing the need to rekey the information on each tab within the scoring excel file. The missing evaluation forms were the result of a single bid submission. In this instance a responsibility determination was done (Responsive and Responsible) for the submitted proposal.

Target Completion Date: Completed

Issue 4: Notices of Award

Pamela Bryant, Senior Vice President and Chief Supply Chain Officer

Action Plan: We acknowledge that the posting of the notice of awards had not been updated since the departure of the team member, however the posting of the Parkland Board agenda provided notice of award for all contracts reported to the Board for approval. We are working with the Supply Chain Informatics Team to automate the posting of new contract awards through the Infor Financial Management System and eliminate any manual intervention to post the notice.

Target Completion Date: Second Quarter 2023

Prepared By
Vic Summers

Prepared For
Audit Committee Meeting
February 2023

Audit Title	22-16 UTSW Master Service Agreement – CVTS Process
Performance Rating - Importance Rating	Low - High
Audit Group	Internal Audit
Audit Start Date	07/07/2022
Audit End Date	02/08/2023
Auditors	Joye Brazell, Senior Compliance Auditor Sue Hinerman Gile, Senior Compliance Auditor
Audit Type	Annual Audit Plan

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Background

Parkland Health (Parkland) contracts with the University of Texas Southwestern Medical Center (UTSW) through a Master Services Agreement (MSA) for the provision of medical professional services and inpatient hospital services for specified Diagnosis Related Groups (DRG) for Cardiovascular, Thoracic Surgery (CVTS). The request and approval of the CVTS claims are processed by Medical/Surgical clinical services. Validating and processing the inpatient claims and the professional fee claims for payment are completed by Parkland's UT Contract Administration Office. Prior authorization is required for all CVTS services and is documented on the Institutional Authorization (IA) form.

The IA forms are used to track all Parkland patients requesting CVTS services. The IA forms are approved by the SVP of Nursing and forwarded to Parkland's UT Contract Administration Office for payment of DRG and Professional fees. Parkland's UT Contract Administration Office Analyst will submit a validated invoice to the SVP of Nursing for review and approval of inpatient claims (DRG). Professional fee claims are submitted to the third-party administrator for processing as defined in the MSA with final approval by the VP of Parkland's UT Contract Administration Office.

Inpatient is defined as a patient that is transferred to Clements University Hospital from Parkland and receives surgery less than five days from the date of the email request. The outpatient standard is defined as a patient that receives surgery within 90 days of the email request. This can be either a patient seen for follow-up care following surgery or for patients that were admitted to University Hospital from an outpatient status.

Audit Purpose/Rationale

The purpose of this review was to ensure that the referral process for patient CVTS services were meeting the time guidelines and that the claims submission process for both institutional and professional fees met the claims submission requirements of the MSA and CMS. Random samples of CVTS claims paid between October 2021 and July 2022 submitted by UTSW were randomly selected using RatStats. The place of service (POS) was used to stratify by inpatient, outpatient, and emergency services.

The professional fee payments made for the period of October 1, 2021, through March 31, 2022, the dates of service were from April 17, 2021, through March 31, 2022.

The ACA Molina claims were not included in the review.

Performance Risk Rating: **Low**

This area received a rating of low-risk due to the processes working as intended.

Importance Risk Rating: **High**

This area received a high-risk rating for importance due to Parkland's obligation to provide safe, quality patient care while adhering with claims submission requirements of the MSA and Centers for Medicare and Medicaid Services, Chapters 1: General Billing Requirements and Chapter 12: Processing Physician/Nonphysician Practitioner Fees.

Risk Rating Legend

Top Performance	• Controls are functioning as intended • Corrective action plan, if any, is simple	99-100
Low Risk	• Zero or minor weaknesses identified • Controls are functioning with minor errors or gaps identified • Corrective action plan, if any, is straightforward	95-98
Medium Risk	• Controls are present, but not yet effective or sufficient and major issues noted that could jeopardize the accomplishment of business objectives • May include a pattern of multiple minor weaknesses or newly identified findings • Corrective action plan to remediate will be moderately complex	90-94
High Risk	• Controls not yet identified, not yet implemented, ineffective or insufficient; not functioning as intended and is a contributing factor to non-achievement of business objectives • May include a pattern of moderate or significant weakness such as “second generation” findings • Corrective action plan to remediate will be complex	Below 90

Audit Conclusion

Overall, the process for prior authorization of CVTS services is working according to processes and procedures. Patients that have been referred for services are being seen within the timeframes outlined. All payments made for inpatient claims and professional fees were made in a timely manner.

For inpatient claims (DRG) all claims were paid timely according to the MSA requirement. The average number of days from the date of request for service to the date patient received service was 4.0 days. Parkland’s goal is to have patients seen within 2-5 days.

For professional fee claims for inpatient services, the average number of days from the date of the email request to the surgery date was 5.6 days. For outpatient services, all patients received surgery within 90 days of the email requests, which is within Parkland’s goal. The professional fees were filed timely for approved billing providers.

Results

Inpatient Services (DRG)

For inpatient services (DRG) all claims reviewed in the sample were submitted from UTSW to Parkland’s UT Contract Administration Office timely and the UB04 and the Medicare WebPricer information received for the claims was validated for correct payment. IAS observed the following:

1) All claims reviewed were submitted within 120 days; the average number of days from discharge date to filing the claim was 17 days.
2) For all claim lines reviewed, IAS validated the Medicare WebPricer information, and the payment made, which were correct.

3) For one claim line, the plan code on the claim did not match the plan code in Epic. The patient's insurance coverage on the claim received from UTSW did not match the IA form information or the insurance information in EPIC but was approved and processed for payment. This claim was discussed with Parkland's UT Contract Administration Office and a refund was requested and recouped.
4) For the sample claims reviewed, the average number of days from the date of request to the date of service was 4.0 days.

Faculty Professional Fees

For the professional fees, all claims reviewed in the sample were submitted from UTSW to Parklands TPA (third party payer) timely where the patient's coverage is verified and the claim is adjudicated. Parkland's goal is to have inpatients receive services within 2–5 days of request. We observed the following:

1) For the 8 inpatient claim lines reviewed, the average number of days from the date of the email request to the surgery date was 5.6 days.
    a. Four of 8 claim lines, the patients were transferred and received surgery less than 5 days from the date of the receiving the email request.
    b. Four of 8 claim lines, that were transferred and received surgery greater than 5 Days from the date of receiving the email requests ranging 7 to 10 days. These delays were due to required pre-op testing, other acute medical conditions, and patient requests for delays.
2) The average number of days for outpatient services from the date of the email request to the surgery date was 23.2 days (< 90 days).
3) All claim lines reviewed were processed timely (< 295 days).
4) All claim lines submitted for payment, the provider submitting the claim was an approved billing provider.

Appeals, Corrected Claims, Recoupments

There were no applicable appeals, corrected claims, or recoupments found for the sample reviewed.

Management Response

Judy Herrington, Senior Vice President of Nursing

Issue 1: Payment made on claim for an unapproved payor

Action Plan: Will continue to double check all IA payor categories against payor documented in Epic. Any discrepancies will be validated with the support of Patient Financial Services**.**

Target Completion Date: Ongoing Quality Check

Parkland

Prepared By
Vic Summers

Prepared For
Audit Committee Meeting
February 2023

Audit Title	22-11 Physical Inventory – Fiscal Year 2022
Performance Rating - Importance Rating	Medium - Medium
Audit Group	Internal Audit
Audit Start Date	09/01/2022
Audit End Date	02/08/2023
Auditors	Kevin Hannigan, Senior Internal Auditor
Audit Type	Annual Audit Plan

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Tabitha Lee	Vice President of Finance and Controller

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Background

At the end of each fiscal year, Pharmacy Services and Materiel Receiving & Distribution (MRD) separately conduct inventory counts to ensure the accuracy of each department's inventory valuation on Parkland's financial statements. The counts are conducted at times least likely to disrupt processes critical to patient care.

Pharmacy Services contracts with an outside vendor to perform a full inventory count of all pharmacy locations, including central, inpatient, and ambulatory pharmacy areas. Parkland is using Management Health Solutions, Inc. d/b/a Syft (Syft) to perform the annual pharmacy inventory count for FY 2022. Syft provides inventory services to hospitals and health systems. This is the first year that Parkland has used Syft for the annual inventory count and the contract, which commenced August 30, 2022, is valid for one year.

In addition to this year-end count, Pharmacy Services staff perform counts throughout the year and adjust the inventory control system as necessary. These adjustments are posted to Epic Willow (Pharmacy's inventory tracking system) and flow through to the Infor System (Parkland's financial accounting system).

The annual count for the MRD New Parkland Warehouse (NPWH) was conducted by MRD personnel. IAS noted evidence that MRD personnel performed cycle counts during FY 2022 and adjustments to the inventory control system were made as necessary. However, the recently opened (FY 2021) MRD Supply Chain Distribution Center (SCDC) inventory was not a part of the FY 2022 MRD inventory count.

A count for Perioperative Services was not conducted this year. Additionally, inventory transactions and balances for Perioperative Services are not currently included in the financial accounting system (Infor). The responsibility for Perioperative Services inventory moved from Perioperative Services to Supply Chain in FY 2021.

Audit Purpose/Rationale

The objectives of the audit were to:

- Evaluate, for accuracy, the fiscal year-end physical inventory counts of Pharmacy Services and MRD.
- Evaluate operational and system processes as they relate to inventory valuation for Parkland's financial statements.

Internal Audit Services (IAS) observed the annual physical inventory process performed in Pharmacy Services and the MRD Parkland Warehouse location for the fiscal year ending September 30, 2022. Specifically, IAS performed the following:

- Counted a sample of inventory items for each observed location and compared the IAS count to the count performed by Syft for Pharmacy Services and MRD personnel for MRD.
- Reconciled the final inventory counts to the inventory control system data for each sampled item to evaluate the accuracy of the location's inventory control system with respect to actual item counts.
- Performed an analysis of inventory adjustments for Pharmacy Services and MRD for FY 2022.

In evaluating the physical inventory process's accuracy, IAS performed test counts of randomly selected items. The errors identified by IAS' test counts were communicated for appropriate actions. An error for Pharmacy Services is defined as an item with an individual count variance of 10% or greater. The 10% threshold for Pharmacy Services is based on the contracted accuracy rate of 90%. An error for MRD is defined as an item with an individual count variance of 5% or greater. The 5% error rate for MRD is based on the IAS reportable error rate.

Test count results are detailed in the following table for areas included in the financial statements:

FY 2022 Inventory Count Results	Pharmacy[1]	MRD[2]
Sample Size	160	30
Sample Value	$211,272	$72,865
Number of errors	13	1
Value of Errors[3]	$155,769	$180
FY 2022 Error Rate (Number)	8%	3%
FY 2022 Error Rate (Absolute Value)	74% *	< 1%
Inventory Account Statistics		
FY 2022 Total Adjustments **	$6,396,040	$18,598,151
FY 2021 Total Adjustments **	$3,326,644	$12,266,412
Ending Inventory at 9/30/22	$6,783,708	$9,726,848 ***
Ending Inventory at 9/30/21	$7,431,016	$6,560,957 ***
% Change in Ending Inventory	-9%	48%

*One item in IPAC pharmacy inventory had an error value of $155K. This error caused the overall absolute value error rate to be 74%. Without this error, the overall absolute value error rate would have been less than 1%. This item was not on the vendor's count sheet and was confirmed with the vendor.

** Total Adjustments includes all positive and negative adjustments (absolute value)

*** MRD ending inventory at 9/30/2022 for NPWH and SCDC was $2,197,284 and $7,529,564, respectively. MRD ending inventory at 9/30/2021 for NPWH and SCDC was $3,460,957 and $3,100,000, respectively.

Performance Risk Rating: **Medium**

Parkland's physical inventory received a medium risk rating for performance due to inventory counts variances from system counts, and inventory accounts in the Infor Accounting System (and financial statements) that did not reflect all drugs and supplies.

Importance Risk Rating: **Medium**

This area received a medium risk rating for importance due to the potential impact to Parkland's financial statements and the ability to manage Parkland's supply and pharmacy inventories, which can potentially impact patient care.

[1] - *The test counts shown apply only to the following Pharmacy areas: IPAC, Central fill, RJA, RJA FQHC, Bluitt-Flowers, and Redbird Outpatient Pharmacies*

[2] - *The test counts shown apply to the MRD New Parkland Warehouse location. The Supply Chain Distribution Center inventory was not included in the count but was included in total ending inventory for FY 21 and FY 22.*

[3] - *Value of errors for Pharmacy represents the absolute dollar value of variances between IAS and Syft staff counts; for MRD, it represents variances between IAS and MRD personnel counts.*

Risk Rating Legend

Top Performance	• Controls are functioning as intended • Corrective action plan, if any, is simple	99-100
Low Risk	• Zero or minor weaknesses identified • Controls are functioning with minor errors or gaps identified • Corrective action plan, if any, is straightforward	95-98
Medium Risk	• Controls are present, but not yet effective or sufficient and major issues noted that could jeopardize the accomplishment of business objectives • May include a pattern of multiple minor weaknesses or newly identified findings • Corrective action plan to remediate will be moderately complex	90-94
High Risk	• Controls not yet identified, not yet implemented, ineffective or insufficient; not functioning as intended and is a contributing factor to non-achievement of business objectives • May include a pattern of moderate or significant weakness such as "second generation" findings • Corrective action plan to remediate will be complex	Below 90

Audit Conclusion

Overall, improvements are needed to address current inventory practices. Inventory controls may not be effective as indicated by the variance between shelf counts and system data requiring significant adjustments. Additionally, over $15 million in drugs and supplies counted were expensed when received which results in undervalued assets and overstated expenses in Parkland's financial statements. The pharmacy inventory count performed by Syft met the overall accuracy threshold with an 8% error rate (13 errors of 160 items sampled - 13/160 = 8%) which is under the 10% allowable error rate. The overall error rate for MRD was 3% which is under the 5% allowable error rate.

The responsibility for Perioperative Services inventory moved from Perioperative Services to Supply Chain FY 2021. Currently, Perioperative Services Inventory is not included in Parkland's Inventory. Additionally, the FY 2022 ending balance for the Supply Chain Distribution Center was $7,529,564; however, it was not included as part of this year's inventory count.

In FY 2021, warehouse safety and security concerns did not ensure safety of employees and protection of supplies; however, those concerns have been addressed. During the FY 2022 inventory, IAS personnel observed the MRD warehouse well organized and that prior year issues relating to warehouse safety and security have been resolved.

Issues/Findings

Pharmacy Services Inventory Counts

Risk Rating: **Medium**
Risk: **Inaccurate inventory counts do not ensure accuracy of inventory reported in the financial statements. Inventory controls do not ensure accuracy of inventory systems and affect ability to manage/optimize inventory.**

An overall error rate of 8% (13 errors of 160 items sampled) was identified for the Syft counts in Pharmacy, indicating that Syft counted within the expected 90% accuracy rate. However, the IPAC and

Central Fill pharmacy inventory count did not meet the desired accuracy threshold with its error rates of 20% and 13% respectively. When all IAS sampled areas were combined, the errors represent 74% of the dollar value of all items in the sample. All the errors identified during the IAS test counts were communicated to the respective departments and ending balances were adjusted to reflect noted discrepancies.

Pharmacy Inventory adjustments increased by 92% from $3,326,644 in FY 2021 to $6,396,040 in FY 2022. The total Infor value of Pharmacy inventory at the end of FY 2022 was $6,783,708 which is a 9% decrease from FY 2021's ending inventory of $7,431,016.

Pharmacy Inventory Control Systems

Risk Rating: **Medium**
Risk: **Inadequate controls over inventory systems and incorrect accounting for inventory can affect the accuracy of the financial statements. Inventory controls do not ensure accuracy of inventory systems and affect ability to manage/optimize inventory.**

Inventory amounts in Infor do not reflect a large portion of the drugs and supplies counted during the inventory as they are expensed to the relevant cost center when received. The total inventory value counted by Syft was $22,449,740. The amount of Inventory counted by Syft that is reflected in the Infor system is $6,783,708 while approximately $15.6 million was expensed directly.

By expensing over $15 million in drugs and supplies when received, the impacts to the financial statements include an understatement of current and total assets. In addition, inventory written off will overstate expenses and impact the net income or net loss reported, by decreasing net income or increasing net loss reported. Direct expensing of inventory items is not in compliance with Generally Accepted Accounting Principles (GAAP) for inventory control, management, and accounting. Additionally, because there is no inventory system for the expensed areas, Syft's counts could not be compared to the expected value of drugs held in inventory.

Control weaknesses were identified for the inpatient pharmacy (IPAC) and its inventory control system, Swisslog. IPAC represents approximately two-thirds of the total pharmacy inventory value in Infor, and Swisslog is unable to interface with Syft's physical count data to update the actual shelf count. Additionally, Pharmacy Services staff do not manually update item variances due to lengthy system downtimes necessary. As a result, there is no assurance of accuracy in the Swisslog system. This could affect inventory management features such as reordering quantities. Pharmacy is currently working to implement Epic Willow as a solution for the inpatient inventory system, and they expect it to be implemented in 2024.

Ambulatory Pharmacy locations use the Epic Willow inventory controls system. Pharmacy staff counts are updated into Epic Willow and adjustments made in EPIC Willow flow through to Infor. Syft counts are not uploaded into Infor, and Pharmacy staff do not enter all Syft count data into Epic Willow. As a result, the Epic Willow and Infor Systems do not accurately reflect the inventory counts performed by Syft.

MRD Inventory Counts

Risk Rating: **Medium**
Risk: **Inaccurate inventory counts do not ensure accuracy of inventory reported in the financial statements. Significant increases in adjustments over the prior year may indicate control weaknesses affecting accuracy of the inventory system. Lack of year-end inventory validation for the Distribution Center does not ensure accuracy in financial reporting or inventory management. Inventory controls do not ensure accuracy of inventory systems and affect ability to manage/optimize inventory.**

An error rate of 3% (1 of 30 items sampled was identified for the MRD supply inventory counts based on Internal Audit's validation. Total MRD adjustments for FY 2022 amounted to $18,598,151 compared to $12,266,412 in FY2021. This represents a $6,331,739 (52%) increase in total adjustments.

The quantities in the Infor system at the beginning of the count were incorrect for 19 of 30 (63.3%) items sampled. Differences between the IAS count and Infor system amount raise concerns about the internal controls surrounding the inventory process. The discrepancies between the inventory counts and the Infor system resulted in the following concerns:

a. The reliability and accuracy of data in the inventory module in Infor cannot be relied on.
b. A lack of training and/or knowledge of the Infor system may exist.
c. Potential financial reporting risks may exist due to control weaknesses.

While its inventory value amounted to $7,529,564 in the Infor accounting system, the Distribution Center was not included in the FY 2022 MRD inventory year end count. Cycle counts were performed throughout the year, but a year-end inventory count would provide more assurance of the accuracy of the fiscal year-end inventory value and on-hand quantities.

Prior year MRD warehouse safety and security concerns have been addressed

Risk Rating: **Low**
Risk: **Warehouse safety and security concerns may not ensure safety of employees and protection of supplies.**

IAS personnel observed the MRD warehouse at the time of the annual physical inventory. The MRD warehouse was neat and well organized. Audit Staff noted that prior year issues relating to warehouse safety and security have been resolved. IAS commends the efforts of MRD personnel in addressing and correcting the following prior year observations: blocked doors, boxes on the floor, boxes stacked poorly, and trash. For example, an exhaust vent was partially covered, boxes were stacked above 12 inches from the ceiling, boxes on the floor, overstock items located in the hallway outside the warehouse, and an exit door was blocked with boxes making the pathway impassable. Unsafe practices are potential triggers for disasters such as fire outbreak or accidents in workplace, and unsecured items in the hallway limits safeguarding of supplies.

Perioperative Services Inventory is not included in Parkland's Inventory

Risk Rating: **Medium**
Risk: **Not reflecting the value of perioperative supplies as inventory in Parkland's accounting system, overstates expenses and understates assets in Parkland's financial statements. Inventory controls do not ensure accuracy of inventory systems and affect ability to manage/optimize inventory.**

The balance of inventory transferred to Supply Chain from Perioperative Services is not currently included in the Infor accounting system financial reports. No perioperative inventory was conducted this

year. These items are not currently included in Parkland's inventory; however, this is expected to change due to new oversight from Supply Chain. The responsibility for Perioperative Services inventory moved from Perioperative Services to Supply Chain in FY 2021.

Recommendations

Pharmacy

- Direct expensing of inventory should be addressed as it does not comply with Generally Accepted Accounting Principles. Inventory should be treated as an asset when purchased and expensed as consumed.
- Continue to encourage periodic reconciliation of system count to physical quantity, investigate any material variances, and provide adjustment, where needed, to promote accuracy of inventory systems.

MRD

- Continue to encourage continued cycle counts of system to physical quantities, investigate any material variances and provide adjustments, where needed, to promote accuracy of the inventory system.
- Include Perioperative Service supplies in inventory process and in the Infor system balances.
- Include the MRD distribution center in future annual inventory counts.
- Continue to ensure warehouse environment of care meets the Joint Commission standards for health and safety of warehouse employees.

INTERNAL AUDIT SERVICES
Annual Report
October 1, 2021 – September 30, 2022

Parkland Health

Vic Summers, Senior Vice President and Chief Audit Executive

Audit Committee Meeting
February 2023

Purpose

The purpose of this annual report is to provide information on the assurance services, consulting services, and other activities of the internal audit function.

During Fiscal Year 2022, Internal Audit Services (IAS) presented reports and issues to Parkland Management (Management) and the Dallas County Hospital District Board of Manager's Audit Committee (Audit Committee). The projects were the result of our annual audit plan approved by the Board of Managers on October 26, 2021 and requests from Management and/or the Board. This document summarizes the internal audit activity for the plan year as of September 30, 2022.

Services

Internal Audit Services is an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. Services performed include assurance reviews, consults, continuous monitoring, follow-up on prior audits, physical inventory, and continuous improvement of IAS processes.

IAS performs operational and financial audits to evaluate whether hospital departmental controls are effective and efficient, as well as to evaluate for sufficient controls over financial transactions.

Unlike independent external financial audits, internal financial audits do not express professional opinions on presentation of financial statements. Criteria used in the evaluation of the established controls are based on The Committee of Sponsoring Organizations (COSO) framework, and industry best practice criteria are used in evaluating operational effectiveness and efficiency. Frequently, these audits compare operational practices to the departmental procedures established by management.

IAS performs compliance reviews to determine whether processes and controls are compliant with regulations and functioning as intended; some examples of standards used for testing include Centers for Medicare & Medicaid Services Conditions of Participation, Joint Commission, and Federal/State laws.

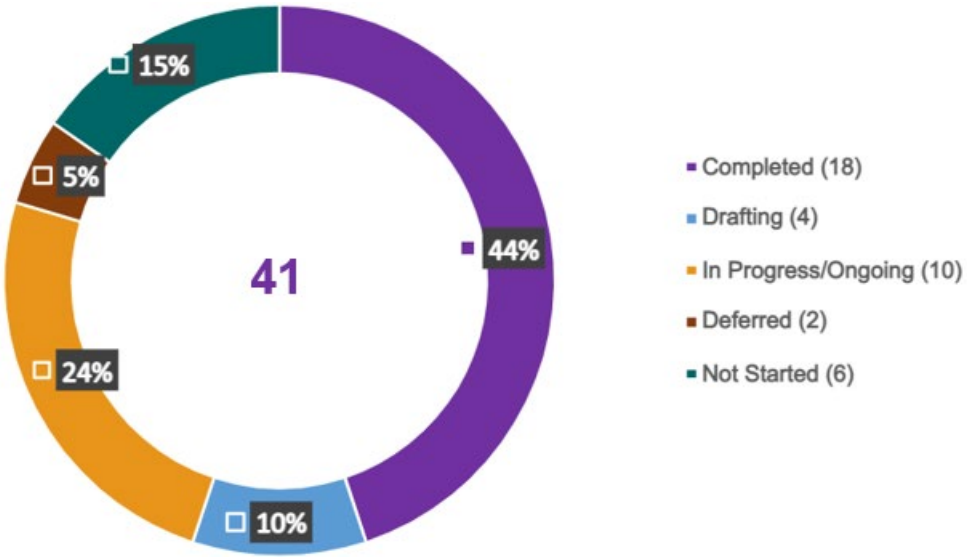
IAS provides Parkland with a variety of information technology services including audits of general system controls, application controls, data integrity, physical security, information security, and internal data support. IAS also serves as consultants on various system implementation projects. Criteria used in evaluating information technology applications, procedures, and implementations are derived from COBIT (Control Objectives for Information and Related Technology) and industry best practices.

In accordance with The Institute of Internal Auditors' **International Standards for the Professional Practice of Internal Auditing (IIA Standards),** IAS performs consultation services at the request of Management. This value-added service is advisory in nature and is an independent review focusing on areas of management concern. Continuous monitoring activity is designed to provide a proactive review of high-risk topics. Issues noted during these reviews are immediately reported to management for remediation.

The 2022 Audit Plan outlined the internal audit projects and activities to be performed by Internal Audit Services during fiscal year 2022 in accordance with responsibilities established by the IIA Standards and consistent with the Audit Charter. The plan is prepared using a risk-based approach to ensure that areas and activities specific to Parkland Health with the greatest risk are identified for consideration to be audited. Following is the status of projects and other activity released or in progress.

Audit Plan Performance

The approved 2022 audit plan included 30 audits, projects, and activities. Of the 41 planned activities (including FY22 Carry Forward-9 and Ad Hoc Requests-2), 18 have been completed, 4 are in draft and 10 are in progress. The remaining projects and activities are detailed by status at the end of the year.



Completed

1) Annual Audit Plan – Fiscal Year 2023
2) Audit Follow-Up Monitoring
3) Cash Monitoring
4) Construction
5) Construction (FY 2022)
6) Drug Diversion
7) Enterprise Risk Management (ERM)
8) Epilepsy Program CAP Validation
9) External Audit (Final FY 2021)
10) External Audit (Interim FY 2022)
11) Information Security
12) PCCI
13) PCHP
14) Physical Inventory
15) Police Inventory Process
16) RCA Validation
17) Surgical Count Process
18) UT Contract Performance Validation – Treatment Team

Drafting

1) Employee Health Plan
2) Physical Inventory
3) UT Documentation Review
4) UT Payment Validation Database

In Progress/Ongoing

1) Procurement/Contracting
2) COVID-19
3) Talent Acquisition
4) Foundation Software Post-Implementation
5) IAS Quality Assurance Review – Internal Assessment
6) COPC Population Health
7) HIPAA Privacy
8) UT Contract
9) Audit/GRC Management System RFP & Implementation
10) Out of County Notification and Billing Process

Deferred

1) Price Transparency Compliance
2) RCA Validation

Not Started

1) Disaster Recovery
2) PCCI
3) Drug Diversion Risk Prevention Monitoring
4) Revenue Cycle
5) Supply Chain
6) Sanction Screening

Follow-Up Projects

Internal Audit Services has provided quarterly reports on previously reported audit recommendations and management responses. Updates were provided to the Committee regarding the status of observations. Between October 1, 2021, and September 20, 2022, IAS has tracked 61 audit issues. Of the 61 audit issues tracked, 24 of the issues were addressed and Management accepted the risk of 1 issue. This leaves an ending balance of 36 open issues as of September 30, 2022.

Fraud Reporting and Coordination

Parkland Health maintains the following fraud reporting methods:

- Parkland's Internet home page **(https://www.parklandhealth.org/home)** and internal SharePoint site **(https://phhs.sharepoint.com/)** have ethics and compliance links to report fraud, waste, and abuse.
- Parkland has a hotline for reporting suspected noncompliance, ethics violations, and fraud at the Integrity Line maintained by an external vendor.
- The Code of Conduct includes information on fraud, waste, and abuse.

Compliance, Parkland Police, Patient Financial Services, and IAS coordinate and collaborate on investigations and allegations of fraud, waste, and abuse when appropriate.

Quality Assurance Reviews

In accordance with IIA Standards, external quality assurance reviews are conducted every five years. Internal Audit Services received the highest ratings of Generally Conforms for both previous assessments. IIA Standards require an external assessment every five years, and Internal Audit Services will receive its next external quality assessment in November 2024. Periodic internal assessments are also required by the standards, and the most recent internal assessment was completed in 2022.

Time Summary

The following summary reflects the Audit Plan budget to the actual time dedicated for indirect and direct audit hours as of September 30, 2022.

	Time Spent	%Time	Budgeted	%Budgeted	Δ%
Indirect Hours	11,816	37%	11,228	35%	-2%
Direct Hours*	20,113	63%	20,491	65%	2%
TOTALS	**31929**		**31719**		

* Includes Support, Special Projects, Consults, Follow-up, Affiliates, and Assurance Reviews.

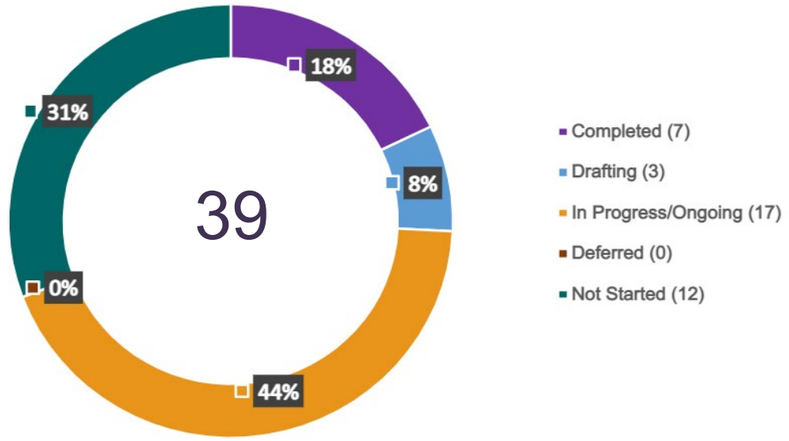
Financial Performance

Figures represented are as of September 30, 2022.

	Actual	Budget	Variance	Percent
Salaries	$1,715,504	$1,787,149	-$71,645	-4.0%
Expense*	$131,735	$140,477	-$8,742	-6.2%
TOTALS	**$1,847,239**	**$1,927,626**	**-$80,387**	**-4.2%**

* Includes actual rent expense of $110,089 (budgeted $113,100)

Internal Audit
Fiscal Year 2023
Audit Plan Update



	Count	Planned	Completed	Drafting	In Progress / Ongoing	Deferred	Not Started	Comments
2022 Carry Forward	**10**							
Foundation (IT Implementation)		Yes		X				
UT Contract - CVTS		Yes	X					
COVID-19 Post PHE		Yes	X					
Employee Health Plan		Yes	X					
UT Documentation Review		Yes	X					
UT RVU Payment		Yes		X				
Talent Acquisition		Yes		X				
Procurement/Contracting		Yes	X					
HIPAA Privacy		Yes	X					
Population Health		Yes	X					Risk Assessments completed for: GI & Liver Clinic, Internal Medicine Clinic, Neuro Clinic, Oak West Clinic, and Correctional Health.
Audits	**15**							
ChargeMaster		Yes			X			
Contract Labor		Yes			X			
Lower Unit of Measure (LUM) Supplies		Yes					X	
Out of County		Yes			X			
UKG - Payroll		Yes			X			
Epic - Documenation Auto-fil		Yes			X			
Network		Yes			X			
Remote Clocking		Yes			X			
Vehicles		Yes					X	
Disaster Recovery		Yes			X			
Managed Care Payors Paying Correctly		Yes					X	

	Count	Planned	Completed	Drafting	In Progress / Ongoing	Deferred	Not Started	Comments
Paitent Property		Yes			X			
Price Transparency Compliance		Yes			X			
Telehealth		Yes					X	
Population Health		Yes			X			Correctional Health Audit
Affiliates	**3**							
PCHP		Yes			X			Management Request - Review and periodic monitor the delegate entity agreement established between PCHP and Parkland.
Foundation		Yes					X	
PCCI		Yes					X	
Annuals	**11**							
Quality Assurance Review		Yes					X	Annual internal review as required by the Institute of Internal Auditor Standards.
RCA Validation		Yes					X	Validate prior RCA corrective actions have been sustained. Deferred to FY 2023 after consultation with Quality & Risk Management
HIPAA Privacy		Yes					X	Annual review that typically includes areas of high concern by the OCR. Collarboration project with Corporate Compliance.
External Audit (Interim & Final)		Yes					X	Assistance with external audit testing and following up on the prior year deficiencies.
Physical Inventory		Yes					X	Annual sampling of inventory counts to ensure accuracy.
HIPAA Self-Monitoring		Yes					X	
Follow-up Monitoring		Yes			X			Review of past audit findings and reporting progress and/or completion.
Treatment Team (1st on call response)		Yes			X			Validation of treatment team assignments in EPIC.
Annual Audit Plan		Yes			X			The creation of the next annual audit plan, which includes an assessment of audit risk and available audit resources.
Enterprise Risk Management (ERM)		Yes			X			The assessment and summarization of organizational risk. This is done in collaboration with other Parkland departments.
Audit /GRC Management System RFP & Implementation		Yes			X			The procurement and implementation for the replacement of the Audit & GRC application.was cancelled. IAS is working through alternatives to ensure a viable solution is found that facilitates adherence with IIA Standards as well as a tool for organization's ERM process.
	39	**39**	**7**	**3**	**17**	**0**	**12**	
			18%	**8%**	**44%**	**0%**	**31%**	
Management/BOM Requests		Yes						
Management Requests								Perform reviews as requested by management or the Board. This includes integrity line investigations. Committee approved hours in the audit plan. Specific projects will be communicated upon request
	39		**7**	**3**	**17**	**0**	**12**	
			18%	**8%**	**44%**	**0%**	**31%**	

Internal Audit Services

Internal Quality Assurance Review (QAR), Report No. 22-13

Vic Summers, Senior Vice President and Chief Audit Executive

Audit Committee Meeting

February 2023

Parkland

Parkland

Executive Summary

The objective of the review is to evaluate Internal Audit Service's (IAS) conformance with the definition of Internal Auditing, The Code of Ethics, and the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as part of our quality assurance program. Per IIA standards this review is conducted on an annual basis internally and every five years externally.

These objectives were achieved by performing the following:

- Review of IAS department policies and procedures
- Review of Audit Committee agendas and minutes
- Completion of planning guides and programs within the most recent (2017) IIA IPPF aligned Quality Assessment Manual
- Review of selected IAS audits and workpapers

Audit Conclusion:

Internal Audit Services has a history of and continues to perform at the highest IIA Standards rating of "Generally Conforms" in all aspects of the QAR.

Best Practices

- Chief Audit Executive's (CAE) independent line of reporting to the Audit Committee of the Board of Managers
- CAE participates in various steering committees and meets monthly with executive management
- Staff demonstrates strong skills from a diverse range of backgrounds
- Staff empowerment, credentialing, and continuing professional development
- Incorporation of formally documented Vision and Mission statement
- Established policies and procedures to guide the internal audit activity
- Monthly project follow-up status reporting process
- Utilization of computer assisted audit techniques (CAAT)

Opportunities to Strengthen Process

- Lack of audit management software has created a variety of audit process challenges:
  - Maintaining consistent and timely documentation, review, comments and approval of audit workpapers.
  - Project milestone development can be inconsistent and/or unreliable
  - Difficulty in monitoring post-audit corrective action measures
- Return to previous practice of sending post-audit surveys to clients

Recommendations

- Procure a dedicated audit tracking system.
- Review previous Client Survey template and update to reflect current practices.