

May 5, 2011

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***Subject: Radiation Oncology – Encinitas Treatment Center Business Process Review  
Audit Project #2011-36***

The final audit report for Radiation Oncology – Encinitas Treatment Center Business Process Review, Audit Project #2011-36, is attached. We would like to thank all Radiation Oncology personnel for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

Stephanie Burke  
Assistant Vice Chancellor  
Audit & Management Advisory Services

Attachment

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**AUDIT & MANAGEMENT ADVISORY SERVICES**



University of California  
**San Diego**

**Radiation Oncology – Encinitas Treatment Center  
Business Process Review  
May 2011**

**Performed By:**

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**Approved By:**

Stephanie Burke, Assistant Vice Chancellor

Project Number: 2011-36

***Radiation Oncology – Encinitas Treatment Center  
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**I. Background**

UCSD Audit & Management Advisory Services (AMAS) has completed an audit of the business processes at the Department of Radiation Oncology Encinitas treatment center (Encinitas) as part of the approved audit plan for Fiscal Year 2010-11. This report summarizes the results of our review.

The UCSD Department of Radiation Oncology (Radiation Oncology) operates three treatment centers in the San Diego region at sites located in La Jolla, Encinitas, and the South Bay. Encinitas, the first satellite treatment center, opened in October of 2008. Business and financial operations are structured as a joint venture between Radiation Oncology (41.25%), the UCSD Health System (41.25%), the School of Medicine Dean's Office (10%) and the UCSD Medical Group (7.5%).

Clinical activities at Encinitas are managed by the Medical Director, an Office Manager and a Financial Analyst who work closely with the Radiation Oncology Chief Business Development and Administration Officer and contractors to address operational issues and prepare and/or analyze financial and billing information. Encinitas net collections for Fiscal Year 2010-11 were projected to be \$3.4M. The A/R aging schedules for the month ended October 2010 reported an A/R balance of \$1.89M. Balances totaling \$1.84M (97.36%) were due from third party payers. Account balances in the 0 - 60 day category totaled \$1.55M (81.8%) of the outstanding account balances. Only \$154K (8.13%) were more than 120 days past due.

Radiation Oncology has contracted with Revenue Cycle Billing Services, Inc. (Revenue Cycle) to provide billing and collection services to Encinitas. The contract is effective through June 30, 2011, and provides that Revenue Cycle be paid 5% of total collections each month. In return, Revenue Cycle provides Encinitas management with accounts receivable (A/R) aging and collection reports, monitors patient and payer credit balances, coordinates payment arrangements with patients, and conducts appropriate follow-up activity with patients and payers.

Revenue Cycle is responsible for maintaining the integrity of its data systems in compliance with applicable laws and regulations relating to confidentiality of patient records, and with the privacy requirements of HIPAA relating to personally identifiable health information. Revenue Cycle management advised Radiation Oncology that a third party review of its operations and systems was scheduled to be performed later this year.

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**II. Audit Objective, Scope, and Procedures**

The objective of our review was to evaluate the effectiveness of Encinitas core business processes to ensure that operations were effective, financial information was accurate and that business transactions complied with University policy. The project scope included evaluation of business processes performed during the scope

We completed the following audit procedures to achieve the project objective:

- Obtained background information regarding Encinitas business operations and the facility;
- Evaluated the Radiology Oncology and Encinitas organizational structures;
- Identified and performed a financial review of the financial indices related to the Encinitas Center;
- Prepared and reviewed a financial snapshot of the operation for the period July 1, 2009 through November 30, 2010;
- Obtained and reviewed the Encinitas financial projections for Fiscal Year 2010 through Fiscal Year 2016;
- Analyzed actual net collections and compared to the projected net collections for FY 2010-11;
- Reviewed pertinent facility and equipment leases, purchase orders, warranties, and contracts;
- Interviewed the Radiation Oncology Administrative Vice Chair; and the Encinitas Office Manager and Financial Analyst; and performed a walkthrough of the facility;
- Traced a judgmental sample of monthly payments for leases, warranties, and purchase orders to the general ledger;
- Reviewed Revenue Cycle site visit reports for September 2009 and April 2010;
- Analyzed A/R and aging reports for October and November 2010;
- Evaluated cash handling and billing processes;
- Reviewed applicable University of California (UC) and UCSD policies and guidelines, including UC Business and Finance Bulletin 49: *Policy for Cash and Cash Equivalents Received* (BUS 49);
- Evaluated the status of a sample of five patient account balances and five credit balances to ensure that appropriate resolution of the balance was in process; and,
- Performed transaction tests of a judgmental sample of patient payments received to verify that they were timely posted to patient accounts.

A review of Radiology Oncology information technology security controls was not included in the scope of this review, but will be addressed in a separate AMAS Project #2011-22, Cancer Center Clinical Data Security, which opened in February 2011.

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**III. Conclusion**

Based on the audit procedures performed, we concluded that Encinitas core business process controls were effective, and helped to ensure that operations were efficient, financial information was accurate, and business transactions complied with University policy.

We found that charge capture and billing process controls ensured that patient accounts were well managed. Transactions tests conducted during the audit verified that charges and payments were accurately posted to patient accounts in a timely manner. Accounts receivable and account credit balances were appropriately monitored, and Encinitas staff frequently communicated with Revenue Cycle personnel. An annual review of charging practices, including changes or modifications to Common Procedural Terminology (CPT) coding was performed to ensure compliance with federal guidelines.

Encinitas operates in a competitive North County market. In addition, the majority of current patient services are associated with one large payer contract. During the most recent contract negotiation, the payment amount for selected services was reduced, which will result in lower revenue in future periods unless the payer mix becomes more diversified. An increase in North County area patients would likely have a positive effect on the payer mix and help to ensure that Encinitas meets or exceeds financial projections.

Additional observations and opportunities for improvement are discussed in the remainder of this report.

**IV. Observations and Management Corrective Actions**

**A. Strategic Planning**

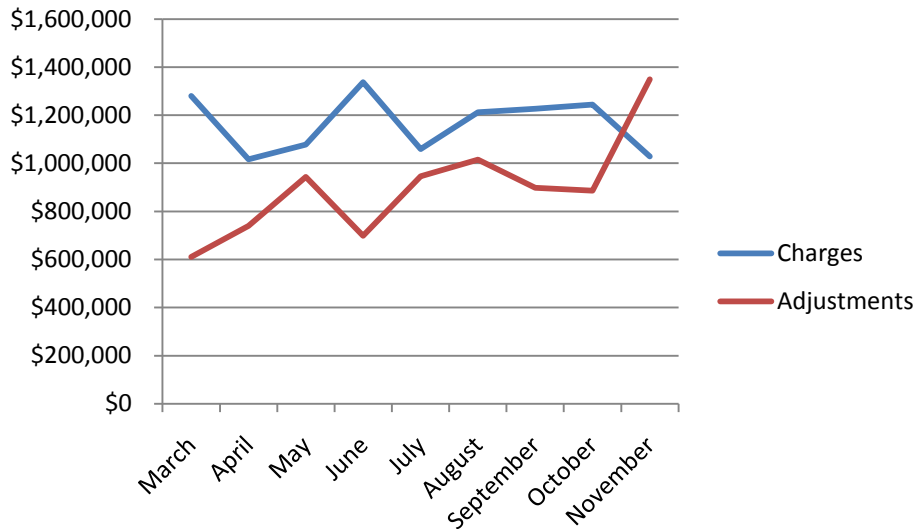
**The current Encinitas payer mix and utilization levels will make it difficult to meet the five-year financial projections for this facility.**

Radiation Oncology management prepared a seven-year financial projection prior to opening the Encinitas treatment center in September 2008. Encinitas collections were projected to be \$3.4M in Fiscal Year 2010-11, and were estimated to increase 5% per year through Fiscal Year 2016.

As discussed above, when audit fieldwork was conducted, the majority of patient services were associated with one large payer contract. During the most recent contract negotiation, reimbursement for selected services was reduced.

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To identify the potential impact of the change in contract reimbursement rate, AMAS prepared an analysis of the ratio of total charges to contractual adjustments for the period of March 2010 through November 2010.<sup>1</sup>



The analysis indicated that the ratio of contractual adjustments to charges has been steadily increasing, which could effectively reduce net collections during the remainder of Fiscal Year 2010-11. This trend could also result in lower than expected revenue in future periods unless the patient/payer mix becomes more diversified. In addition, because net collections were projected to increase 5% annually through Fiscal Year 2016, without an increase in services and associated charges, or a decrease in operating expenses, Encinitas would not reach the projected break-even or net profit status within the expected timeframe.

Based on a review of the Encinitas patient schedule, we noted that Encinitas appeared to be under-utilized. One physician was providing the majority of services at this location. The following additional conditions may also have an impact on utilization.

- ✓ Approximately 30% of Radiation Oncology services are typically associated with palliative care. In general, palliative care referrals are subject to payer contract terms. Only certain payers will authorize reimbursement for palliative treatments.
- ✓ Although Encinitas has actively marketed its services to the local population through community outreach efforts, it competes with several

<sup>1</sup> The data for this analysis was obtained from Executive Summaries prepared by Revenue Cycle.

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other local facilities offering similar services. The Encinitas Medical Director is on staff at Tri City Hospital, and one Encinitas treatment room is made available to UCSD Oncologists to enable them to conduct clinic visits for their North County patients at a more convenient location.

Increased service volume from a more diverse payer mix could result in increase in gross charges and net collections sufficient to meet projections and cover operating expenses.

**Management Corrective Actions:**

1. UCSD Health System (UCSDHS) management has plans to expand clinical care access in the North County. The recent acquisition of the Encinitas based San Diego Cancer Center may increase patient service activity.
2. Radiation Oncology management will continue to market Center services to UCSDHS physicians and North County health care organizations to increase patient service activity.

**B. Budget Variance - Annual Warranty Payments**

**The accounting process for long-term equipment warranties should be amended to avoid future unfavorable financial variances.**

Medical Group expense budgets were established on a quarterly basis. Encinitas had long term warranties on two large pieces of equipment that each required one annual payment. In Fiscal Year 2010-11, the two annual warranty payments totaling \$288,798 were processed within a three week period. The first payment was processed on September 13, 2010 in the amount of \$124,196, and the second payment was processed on October 1, 2010 in the amount of \$164,602. Because the first and second quarter expense budgets did not include these large payments, unfavorable budget variances occurred in the "Medical Group Alpha" and "Transfer from Medical Group" accounts at October 31, 2010<sup>2</sup>.

**Management Corrective Action:**

The School of Medicine Controller is working with Radiation Oncology management to address the timing difference between the annual payment and the quarterly budgeting periods.

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<sup>2</sup> This variance was reported in the UCSD Medical Group CIS – Radiation Oncology; For the Four Months Ended October 31, 2010.



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**C. Cash Handling and Transmission of Payment Support Documents**

**Cash collections were not deposited in the timeframe required by UC BUS 49. In addition, more frequent submission of payment support documents to the billing company would result in timely A/R updates.**

UC BUS 49 requires that cash collections be deposited at least weekly or whenever collections exceed \$500. Encinitas business office staff collected patient payments and deposited them directly into the bank at the end of every month. While completing transactions testing, we noted that the cash collections for November 2010 totaled \$2,665. The following table shows that deposits were required more frequently based on the collection date.

<b>November 2010</b>	<b>Amount Collected</b>
November 1 – 5	\$ 860
November 8 - 12	\$1,130
November 15 – 19	\$ 580
November 22 - 26	\$ 35
November 29 - 30	\$ 60
Total	\$2,665

Revenue Cycle used copies of patient receipts and other deposit information prepared by the Encinitas staff to post payments to the patient accounts. Those documents were also held and submitted to Revenue Cycle at the end of each month when the deposit was made. More frequent deposits and submissions of payment documents will ensure timely update of A/R, and compliance with BUS 49 deposit requirements.

**Management Corrective Actions:**

Radiation Oncology management will:

1. Deposit collections at least weekly or when the amount exceeds \$500.
2. Ensure that payment documentation is submitted to Revenue Cycle on a more frequent basis.