

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Alexander Bustamante
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August 9, 2022

**EXECUTIVE VICE PRESIDENT BYINGTON
EXECUTIVE VICE PRESIDENT NAVA
VICE PRESIDENT LLOYD
EXECUTIVE DIRECTOR OF COMPENSATION HENDERSON**

RE: Final Report Project No. P22A002: Medical Centers Clinical Enterprise Management Recognition Plans (CEMRP)

Attached is a copy of the final report for: Audit Services Project No. P22A002 Medical Centers Clinical Enterprise Management Recognition Plans (CEMRP). With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Systemwide Deputy Audit Officer

Attachment

Cc: Senior Vice President Bustamante
Chief of Staff Henderson
Director Fernandez
Systemwide Associate Director Bishin
Contractor Harrigan

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
SYSTEMWIDE AUDIT

Medical Centers Clinical Enterprise Management Recognition Plans
Audit No. P22A002
August 2022

Work Performed by:
Contract Auditor Harrigan

Work Reviewed by:
Systemwide Associate Audit Director Bishin
Systemwide Deputy Audit Officer Hicks

Executive Summary

Introduction

As part of the University of California Office of the President (UCOP) Fiscal Year (FY) 2021-22 audit plan, Internal Audit completed an audit of the Clinical Enterprise Management Recognition Plan (CEMRP1) for the six UC health systems and UC Health.

CEMRP1 (the Plan), established by the Regents in July 2010, provides the opportunity for at-risk¹ variable financial incentives to those employees responsible for attaining or exceeding key clinical enterprise objectives. Participants in plan-eligible job positions are defined as the senior leadership of the clinical enterprise who have significant strategic impact and a broad span of control with the ability to effect enterprise-wide change. The Plan is supplemented with documented guidelines that establish roles, responsibilities, processes, and procedures related to implementing the Plan.

At the beginning of each plan year, systemwide, institutional, and individual performance objectives are developed and approved by medical center leadership, the chancellors, UC Health, and an independent Administrative Oversight Committee (AOC) as described below. Objectives relate to one or more of the following: financial performance, quality improvements, patient satisfaction, key initiatives in support of the strategic plan, and people and other resource management.

At the end of the plan year, participant performance is reviewed and rated as one component of the award recommendation. A second component is the local medical center (institutional) performance against the Plan, and a third component is systemwide (clinical enterprise) performance. If a participant's total cash compensation is over the established threshold of \$323,700, awards are reported to the Regents. In addition, the Regents must approve any awards to executive officers. Tier I participants (medical center CEOs and Presidents and the Executive Vice President, UC Health) share common long-term objectives. They do not have individual participant objectives.

The AOC is assigned oversight of the Plan, including development, governance, and interpretation. Membership includes the Executive Vice President – Chief Operating Officer, Vice President – Human Resources, Executive Director – Compensation Programs and Strategy, and the chancellors from the six campuses that have health services. The AOC may consult with the Executive Vice President, UC Health during its deliberations. UC Legal will be consulted if there are any questions about the application of the Political Reform Act. The Senior Vice President – Chief Compliance and Audit Officer assures that periodic auditing and monitoring occurs, as appropriate. Non-material changes to the Plan may be approved by the AOC while material or substantive changes require the approval of the President and the Regents Governance Committee and Health Services Committee.

¹ In a given fiscal year, the combination of systemwide, institutional, and participant performance against objectives determines each participant's payout amount which ranges from \$0 to a maximum amount which depends on the Tier range assigned to their position.

In addition to CEMRP1, there is a separate incentive plan (CEMRP2) for those health system employees below the senior management level responsible for attaining or exceeding key clinical enterprise objectives. The AOC also provides oversight of this plan.

Objective and Scope

The primary objective of this audit was to assess the accuracy of the FY 2020-21 CEMRP1 award calculations and award compliance with the Plan. We reviewed the systemwide and institutional results as well as a sample of participant performance results and verified the accuracy of the award calculations. For the sample of participants, we also reviewed additional supporting documentation provided by the health systems related to their quantitative institutional objectives as well as those related to systemwide objectives.

We assessed the FY 2021-22 CEMRP1 systemwide and institutional performance objectives for compliance with the Plan in addition to a sample of participants' objectives.

For both CEMRP1 and CEMRP2, we reviewed the sources of funds used by the health systems and by UC Health to pay out the FY 2020-21 participant awards, reconciled the award payments to the approved amounts (CEMRP1) or estimated maximum amounts (CEMRP2), and calculated variances, if any. For CEMRP2, we verified final payouts were reported to the AOC.

For CEMRP1, we also performed an analysis of FY 2021-22 participant organization, position title, and total participants by location and by tier (Appendix A).

Overall Conclusion

For CEMRP1, we did not identify any participant award calculation errors in our test sample and final fund sources appeared appropriate. We also verified that minor changes to the Plan were appropriately approved by the AOC.

For CEMRP2, we reviewed the fund sources for award payouts. During our review, we noted that several participants were paid using inappropriate funds such as state funds, federal contract and grant funds, or endowment funds. Specifically, four locations reported that the system-designated default payroll funds were used, which in some cases were state funds. Per discussion with UCPath management, this was likely caused by the submission of invalid override funds. When this occurs, UCPath will use the default funds so payments are not delayed. UC Path management reviewed a sample of errors and verified that the overrides submitted were invalid.

Additionally, Internal Audit noted that at UCSF and at UC Irvine one or two participants, respectively, were initially paid with state funds in error and these were corrected immediately.

UC San Diego informed us that, due to the unintended submission of a duplicate file to UCPath, duplicate payments were processed for nearly 1,300 people. However, at the time they discovered this error, some of these transactions had not yet been fully processed, therefore, UC San Diego was able to reverse those transactions. In other instances, staff

either repaid the funds or agreed to a repayment plan. UC San Diego has turned over 42 participants to UCPATH accounts receivable for follow-up. They are still working to negotiate repayments or other resolutions with the remaining 25 participants who were overpaid.

In addition, Systemwide HR Compensation has not yet:

- Obtained a signed attestation from three health system CEOs and the respective University chancellors confirming the funding sources being used for payment of CEMRP1 and CEMRP2 awards as required by the Administrative Guidelines.
- Reported actual CEMRP2 award totals for each health system to the AOC for review.

These observations and management action plans are further discussed in the following section of the report.

Opportunities for Improvement and Action Plans

1. Inappropriate Fund Sources.

Per the CEMRP Administrative Guidelines, regarding funding sources, each location is to “ensure that no state or general funds are used” and is to “validate that appropriate funding sources are being used.” In reviewing fund sources, Internal Audit noted that four health systems’ initial payments were made with inappropriate fund sources for some CEMRP2 participants. At these locations, the fund overrides they submitted for CEMRP2 award payouts for off-cycle checks were not processed (UC San Diego, UC Davis, UCLA, and UC Riverside). Instead, UCPATH processed the payments using the default fund sources, which in some cases were state funds. To remedy this, prior to the end of fieldwork, as there were just a few participant awards needing correction at UC Davis and UC Riverside, those health systems manually processed salary cost transfers (also referred to as direct retros) to transfer the costs to the intended fund source. UCLA had a higher number of payments from inappropriate funds than the other locations. It paid \$230,765 in participant awards with endowment, state, and federal contract and grant fund sources (as of 3/16/2022). These were corrected prior to issuance of this report. As the health systems do not reconcile fund sources submitted to fund sources processed, and as UCPATH does not provide a report of failed fund overrides, health systems were not aware of the conditions above until audit notified them or audit requested payout information beginning December 2021.

While not attributed to submission of invalid fund overrides, Internal Audit noted that at UCSF Health and at UC Irvine Health, one and two people respectively were initially paid with state funds and these were corrected prior to the end of fieldwork.

At UC San Diego, the situation was compounded due to duplicate payments (see Opportunity #2 below).

Per UCPATH management, if invalid Full Accounting Units (FAUs) are submitted as overrides, UCPATH’s standard process is to reject those and apply the default fund sources. We noted a memo informing UCPATH users that when an incorrect FAU is submitted, the payment will be processed using the default account(s). UCPATH management reviewed a sample of the UCLA overrides that were not processed and noted the override FAUs submitted were invalid. They provided specific examples which were forwarded to UCLA. UCLA disputes that all the payouts with inappropriate funds were due to submission of invalid fund codes and provided an example.

Also, per Systemwide HR Compensation, while the CEMRP plan document only specifies that no state or general funds may be used, the intention is that only funds from health system revenues be used.

Action Plans:

Inappropriate fund sources

Systemwide HR Compensation will facilitate the AOC's approval of an update to the Plan documents that spells out the requirement that only funds from health system revenues may be used for awards.

UCPath management will develop a report that shows details of invalid fund codes that were not processed and where the system applied the default funds. They will distribute the report, as applicable, to the health systems so they will be aware of the errors and correct them via salary cost transfers (direct retros) to transfer the costs to the intended fund source.

UCLA Health will follow-up with UCPath management regarding instances where valid fund sources were submitted but not processed leading to inappropriate fund sources being used for payouts.

UCLA Health will discuss with UCPath the feasibility of running a test file in advance of payouts to confirm fund overrides were processed. Post payouts, UCLA will also review the UCPath report of fund override failures. Any inappropriate fund sources will be corrected.

UCPath management will provide Systemwide HR Compensation evidence to support completion of these tasks.

Target dates:

August 31, 2022 - Systemwide HR Compensation

September 30, 2022 - UCPath Management-report

September 30, 2022 -UCLA Health and UCPath management will work together to identify instances, and determine causes, of payout fund discrepancies not caused by submission of inappropriate fund override and discuss running a test file.

December 31, 2022 – UCLA Health – resolve fund override issues, if any

2. Some UC San Diego participants received duplicate award payments.

UC San Diego informed Internal Audit that they unintentionally submitted one of the payroll files twice which resulted in 1,296 participants receiving duplicate CEMRP payments. The majority of these employees agreed to have the amounts repaid via payroll deductions and this process is complete. The cause of the situation was human error.

In addition, they noted that an additional 25 CEMRP2 participants received duplicate payments of \$1,000. A UCPath report indicated that these awards had not been processed and so they were re-entered. However, the UCPath report was inaccurate; the initial awards had been processed. The cause of the erroneous report is under investigation.

Most staff who were overpaid either repaid the funds in full or agreed in writing to a repayment plan, consistent with state law. As of May 18, 2022, forty-two participants had not agreed to a repayment plan, so UC San Diego Health submitted these payments

to UCPath accounts receivable for follow-up. In addition, the health system is still working to negotiate repayments with the additional remaining 25 participants who were overpaid.

An additional complication arose regarding fund sources. Per UCPath management, due to late submission, some off-cycle payments caused a conflict with on-cycle payroll. Specifically, production missed processing some fund overrides and, as a result, incentive payments for 400 employees defaulted to each employee's standard payroll fund sources.

To correct the error, mass salary transfers were processed in late May 2022 and accounting has verified completeness.

Action Plans:

a. *UC San Diego Health will:*

1. *Perform an analysis of the file submission process and revise procedures to avoid a recurrence.*
2. *Continue to follow-up with participants regarding repayment of excess award amounts.*
3. *Complete verification of reimbursement fund source corrections.*

b. *UCPath will determine the cause of the reporting error and remedy the process.*

Both UC San Diego and UCPath will provide Systemwide HR Compensation evidence to support completion of these tasks.

Target dates:

a. *UC San Diego Health*

1. *Completed prior to report issuance.*
2. *August 31, 2022.*
3. *Completed prior to report issuance.*

b. *UC Path – Resolved prior to report issuance.*

3. UC Davis FY 2020-21 CEMRP2 award payouts exceeded the maximum amount approved by the AOC.

The AOC approved CEMRP2 maximum award amounts for each location based on maximum estimates submitted by the locations. UC Davis is the only location where actual payouts reported exceeded the maximum approved amount. The variance was \$946,896 for FY 2020-21 award payouts through January 31, 2022.

Internal Audit informed UC Davis of this discrepancy. UC Davis Audit and Management Advisory Services researched the issue locally. They were told there were several errors that caused the discrepancy:

1. When the initial CEMRP2 estimate was compiled, employees with one of the eligible job classifications were accidentally filtered out and their amounts were not included in the estimate.
2. Some payments that were not CEMRP awards were assigned earnings code XCI, which is reserved for CEMRP2 awards.
3. Some payments were for prior year (FY 2019-20) awards for participants who had been out on unpaid leave until FY 2020-21.

Table below provided by UC Davis Audit and Management Advisory Services (AMAS):

CORRECTED ESTIMATE	
Chancellor's and AOC approved estimate	\$6,068,729
Omitted from estimate by manual error	1,476,000
Correct estimate	\$7,544,729

RECALCULATED PAYMENTS	
Total payments under XCI earnings code	\$7,094,835
Less non-CEMRP2 payments	(396,497)
Less known payments for prior plan years	(24,449)
CEMRP2 payments for plan year 2021	\$6,673,889

REVISED FY 2020-21 CEMRP2 RESULTS	
Corrected estimate	\$7,544,729
Recalculated payments	6,673,889
Estimate less payments	\$870,840

Action Plans:

- a. *UC Davis Health HR will:*
 1. *Submit a request for approval of a revised estimate for plan year 2020- 21 CEMRP2 disbursements to the updated maximum payout.*
 2. *Document a formal review process for the calculation of estimated CEMRP2 payments.*
 3. *Include as a separate line item an estimate of all remaining liabilities from prior years that are not yet paid.*
 4. *Develop a process to monitor annual CEMRP2 payments to ensure that actual payments do not exceed the authorized amount.*
 5. *Coordinate with UCDH Payroll to ensure that earn dates associated with CEMRP2 payments in UCPath correspond to the fiscal year the funds were earned.*
 6. *Coordinate with UCDH Payroll to identify an alternate earnings code(s) for other incentive payments so that CEMRP2 payments can be isolated and more easily confirmed, and move these payments to the alternate earnings code(s).*

UC Davis AMAS will verify the above actions are completed (AMAS Project #22-60-26) and will provide Systemwide HR Compensation evidence to support completion of these tasks.

- b. Systemwide HR Compensation will, after UC Davis obtains the Chancellor's retroactive approval, obtain retroactive approval from the Advisory Oversight Committee of the maximum FY 2020-21 CEMRP2 awards.*

Target dates:

- a. UC Davis - August 31, 2022*
- b. Systemwide HR Compensation - August 31, 2022*

4. The AOC has not been provided all of the CEMRP1 and CEMRP2 documents for review or approval.

Final CEMRP2 payouts are to be provided to the AOC for review. As of June 30, 2022, Systemwide HR had not provided these to the AOC for review due, in part, to the situations described above. Given the processing errors, it is difficult to determine the final amounts. Also, each health system is required to provide a signed attestation from the CEO/President and respective chancellor confirming the funding sources being used for payment of CEMRP1 and CEMRP2 awards. UCLA, UC San Diego, and UC Riverside have not provided attestations to Systemwide HR Compensation.

Action Plan:

Systemwide HR Compensation will:

1. Obtain final CEMRP2 payout amounts from the health systems and present to the AOC for review.
2. Obtain attestations from the remaining health systems that include the amounts and that funding sources were appropriate.

Target date:

August 31, 2022

**FY 2021-22 CEMRP Eligible Titles and Tiers
As of December 2021**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Chief Admin. Officer			Tier II		5@Tier II		
Chief Ambulatory Officer - COO Ambulatory Care	Tier II	Tier II	Tier II				
Chief Communications Officer\CCO & Chief Marketing Officer, Chief of Marketing			2@Tier II		Tier II		
Chief Contact Officer					Tier II		
CEO / President Health System	Tier I	Tier I	Tier I	Tier I	Tier I	Tier I	
CEO, El Centro					Tier II		
Chief Experience Officer/Associate Chief Experience Officer	Tier III				Tier III		
CFO/CFO Children's Svcs./CFO Faculty Practice	Tier II	Tier II	3@Tier II		Tier II	2@Tier II, 2@Tier III	
Chief HR Officer/SVP HR/Chief Admin. & HR Officer			Tier II		Tier II	2@Tier II	
CIO /SVP CIO/Exec. Dir. Clinical IT	2@Tier II	Tier II			Tier II	Tier II	
Chief Innovation and Strategy Officer	Tier III						
CMO/ VP CMO at Benioff Children's Hospital Oakland/ UC Health Medical Director, CMO/Chief Digital Officer - UCSD	Tier II				Tier II	1@Tier II, 1@Tier III	
CNO/Chief (UCLA), Chief (UCD) Patient Care Svcs. Officer, Nursing Director - Emergency Svcs. (UCSD)	1@Tier II, 1@Tier III	Tier II	Tier II		Tier II	Tier II	
COO - Medical Center/VP Med. Center Administration /VC - COO Adult Services	Tier II	Tier II	Tier II	Tier II	2@Tier II	2@Tier II, 3@Tier III	
Chief Pharmacy Executive / Officer						1@Tier II, 1@Tier III	
Chief, Quality and Patient Safety					Tier II		

**FY 2021-22 CEMRP Eligible Titles and Tiers
As of December 2021**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Chief Strategic Planning Officer/VP Health Plan Strat./VP Strategy & Business Dev. Chief Strat. Officer /Chief Strat. Officer Children's Svcs. /Exec Dir. Strat. & Bus. Dev./AVC Strat. Comms./Chief Transformation Officer	Tier II		Tier II		Tier II	1@Tier II, 1@Tier III	Tier II
Controller	Tier III						
Director Clinical Ops., Managed Care	Tier III						
Director Finance/Exec. Dir. Financial Ops.	Tier III						
Director Health Contracts	Tier III						
Director Patient Care Services	4@Tier III						
Director Payer Strategies	Tier III						
Exec. Dir. Patient Experience/Patient Services	Tier III						
Exec. Dir. Perioperative Nursing	Tier III						
Exec. Dir. Oncology Svcs.	Tier III						
Exec. Dir. Professional Services/Exec Dir. Hospital Admin. & Prof. Svcs.	3@Tier III						
Exec. VP Physician Services/Vice Dean - Clinical Affairs						Tier II	
Exec. Vice President - UC Health - UCOP							Tier I
Sr. Assoc. Vice Chancellor/VP - UCSF Health Real Estate						Tier III	
Sr. VP & Chief FP Officer and VP - Faculty Practice Operations						2@Tier II	
Vice Chancellor IT and Data		Tier II					
SVP - Children's Services						Tier II	

**FY 2021-22 CEMRP Eligible Titles and Tiers
As of December 2021**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Vice Dean - Administration and Finance SOM / Sr. Assoc. Dean - Finance & Administration			Tier II			Tier II	
Vice President - Benioff Children's Hospital San Francisco						Tier II	
Vice President - Children's Ambulatory Operations						Tier III	
Vice President - Clinical Services						Tier II	
Vice President/COO Adult Services						Tier II	
Vice President - IT/Assoc. Chief Information Officer						Tier III	
Vice President - International Business Development						Tier III	
Vice President - Major Capital Projects						Tier II	
Vice President - New Hospital Operations						Tier III	
Vice President - Population Health						Tier II	
Vice President - Revenue Cycle/ Revenue Cycle Administrator/Director Revenue Services	Tier III				Tier II		
Vice President - Quality						Tier III	
Vice President - Medical Center Administration						Tier II	
Vice President - Strategic Development / VP Strategy - Cancer Enterprises						3@Tier III	
Vice President - Supply Chain						Tier II	
Vice President - Women's Health Svcs.						Tier III	

**FY 2021-22 CEMRP Eligible Titles and Tiers
As of December 2021**

APPENDIX A

SUMMARY					
	Location	Tier I	Tier II	Tier III	Total Eligible Positions
NOTABLE OBSERVATIONS - UCSF has significantly more participants in the Plan than any other location. - Only UCSF, UC San Diego, and UC Davis have Tier III participants.	UCD	1	8	19	28
	UCI	1	6	0	7
	UCLA	1	12	0	13
	UCR	1	1	0	2
	UCSD	1	18	1	20
	UCSF	1	23	18	42
	UC Health	1	1	0	2
	Total	<u>7</u>	<u>69</u>	<u>38</u>	<u>114</u>