

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



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Alexander Bustamante
SENIOR VICE PRESIDENT
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September 11, 2020

**EXECUTIVE VICE PRESIDENT BYINGTON
INTERIM VICE PRESIDENT LLOYD**

**RE: Final Report Project No. P20A006: Senior Management Incentive Plans
Medical Centers Clinical Enterprise Management Recognition Plans**

Attached is a copy of the final report for: Audit Services Project No. P20A006 Senior Management Incentive Plans Medical Centers Clinical Enterprise Management Recognition Plans. 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 Audit Director Cataldo
Contractor Harrigan

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

Senior Management Incentive Plans
Medical Centers Clinical Enterprise Management Recognition Plans
Audit No. P20A006
July 2020

Work Performed by:
Contract Auditor Harrigan

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

Executive Summary

Introduction

As part of the University of California Office of the President (UCOP) 2019-20 fiscal year 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-risk 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 the medical center leadership, the Chancellors, UC Health, and an independent Administrative Oversight Committee (AOC). 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 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. Beginning with the fiscal year (FY) 2016-17 plan year, Tier I participants (medical center CEOs and Presidents and the Executive Vice President, UC Health) no longer have individual participant objectives but share common long-term objectives. The first payout for these objectives was in FY 2018-19.

The AOC is assigned oversight of the plan, including development, governance and interpretation. CEMRP1 AOC 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. UC Riverside now has representation on this group. The AOC may consult with the Executive Vice President, UC Health during its deliberations. The Office of General Counsel will be consulted if there are any questions about the application of the Political Reform Act in this context. The Senior Vice President – Chief Compliance and Audit Officer assures that periodic auditing and monitoring occurs, as appropriate. Non-material changes may be approved by the AOC while material or substantive changes to the Plan require the approval of the President and the Regents Governance Committee and Health Services Committee.

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. This audit included a limited

review of CEMRP2 awards by reviewing award fund sources and comparing approved estimated award payouts to actual payouts.

Objective and Scope

The primary objective of this audit was to assess the accuracy of the FY 2018-19 CEMRP1 award calculations and award compliance with the Plan. We evaluated award criteria for accuracy and compliance for the systemwide, institutional, and participant performance reviews and award calculations. Our scope included award calculations that were based on the data provided by medical center management. We reviewed the systemwide and institutional results as well as a sample of FY 2018-19 participant performance results and verified the accuracy of the award calculations. 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 2019-20 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 2018-19 participant awards, reconciled the award payments to the approved amounts (CEMRP1) or estimated amounts (CEMRP2) and calculated variances, if any. For CEMRP2, we verified final payouts were reported to the AOC.

Also, we performed an analysis of FY 2019-20 participant organization, position title and total participants by tier (Appendix A).

Overall Conclusion

For CEMRP 1 we did not identify any participant award calculation errors. We verified that state funds were not used for award payouts and that minor changes to the Plan were appropriately approved by the Regents Health Sciences Committee. We noted an issue with the data used to support one of the systemwide objectives related to financial performance – as only results from the first quarter of FY 2018-19 were considered in the attainment level.

For CEMRP 2, we were unable to verify that all awards complied with fund restrictions. At UC San Diego, we noted that state general funds were utilized to pay \$201,110 of CEMRP2 awards. At UC Davis, payouts were made from over 300 accounts/fund sources and as a result, we were unable to verify that none of these fund sources were state general funds.

HR Compensation has not yet obtained signed attestations from health system CEOs to attest that the FY 2018-19 CEMRP1 and CEMRP2 final awards were accurate and in compliance with the respective plans. This is a new procedure as of FY 2019-20.

Opportunities for Improvement and Action Plans

1. CEMRP guidelines do not specify appropriate fund sources for awards

In a prior audit, we noted that neither the Plan nor the Plan guidelines specify appropriate sources of funds for awards. However, per the Plan implementing document from 1997, CEMRP incentive awards are to be funded by medical center revenues. As a result, HR Compensation developed an action plan to discuss sources of funds with the AOC and the Regents Health Services Committee, and on an annual basis, obtain fund sources from each location and verification from each health system that appropriate funds were used. In addition, HR Compensation agreed to obtain annual written attestations from health system CEOs regarding the accuracy of the final awards and compliance with the respective CEMRP plans.

At the time of audit fieldwork, HR Compensation had not yet requested award fund sources or verification from the health systems or UC Health. Internal Audit noted the following fund source issues:

- UC San Diego paid \$201,110 of CEMRP2 awards using state general funds. Per the UC Systemwide Budget Manual, "... state general funds provided to the University should be allocated to the campuses for the purpose of furthering the University's core missions based on the numbers and types of students they enroll."¹ We were unable to determine if these fund sources are appropriate for CEMRP awards.
- UC Davis payouts were made from over 300 accounts/fund sources. Due to the volume, verification of fund sources for these CEMRP2 awards has not been completed at this location.

Action Plans:

HR Compensation will:

- *Discuss with the AOC the need to update the guidelines to include appropriate fund sources and update the guidelines accordingly.*
- *Consult with UC San Diego to determine if state general funds were appropriate for incentive payments. If not, verify corrections are processed.*
- *Obtain details from UC Davis regarding the types of funds utilized.*
- *Annually remind the health systems and UC Health to provide evidence of the fund sources for award payouts and provide verification that no state or restricted fund sources are used.*
- *Obtain annual written attestations from health system CEOs regarding the accuracy of the final awards and compliance with the respective CEMRP plans.*

Target date:

September 30, 2020

¹ UC Systemwide Budget Manual, page 2-1

2. Objectives need to specify award year data.

FY 2018-19 Systemwide Objective III specified that performance results would be based on the best results from one of three FY 2018-19 quarterly Inpatient Quality Metrics Reports. These reports are based on 12-month rolling averages. The three available reports included October (rolling average through June 3, 2018), January (rolling average through September 30, 2018), and April (rolling average through December 31, 2018).

In reviewing the evidence of the results, we noted that the reports have a three-month time lag. Given the time lag in the reports, there is the possibility that a selected report (October) that is used to fulfill the objective may not contain data for the award fiscal year. The AOC may have been unaware of this lag when they approved the objective as it is not mentioned in the objective document.

Action Plan:

HR Compensation will communicate to UC Health and the health systems that going forward, at a minimum, quantitative objectives performance measures must include data from the award year, not solely data from the prior year. Documented quantitative objectives should include date ranges of the data, not just the report dates.

Target date:

September 30, 2020

3. CEMRP2 award payouts by location have not been reported to the AOC.

According to the Plan, the AOC should approve all awards. Our review of the health systems' CEMRP2 awards noted that the AOC approved the estimated payouts, but the final, actual payouts have not yet been reported to the AOC for final approval. Two locations paid out in excess of what was estimated while three locations paid out less than was estimated. The total CEMRP2 variance was (\$6,069,814.71). See table below.

Location *	CEMRP2 AOC Approved Amount	CEMRP2 Actual Amount Paid	CEMRP2 Variance
UC Davis	\$4,803,825.00	\$4,992,089.00	\$188,264.00
UCLA	\$15,455,073.00	\$15,927,268.00	\$472,195.00
UC Irvine	\$10,396,808.00	\$8,289,055.33	(\$2,107,752.67)
UC San Diego	\$8,890,036.00	\$8,723,928.76	(\$166,107.24)
UCSF	\$16,761,932.00	\$12,305,518.23	(\$4,456,413.80)
TOTALS	\$56,307,674.00	\$37,932,341.09	(\$6,069,814.71)

* UC Riverside and UC Health do not have any CEMRP2 participants

Action Plan:

HR Compensation will report the CEMRP2 actual award payouts to the AOC for its approval.

Target date:

September 30, 2020

4. Advisory Oversight Committee (AOC) approval process needs improvement.

The CEMRP1 plan document states “participant objectives will be reviewed prior to the start of the plan year or as soon as possible thereafter.”

The CEMRP1 FY 2019-20 plan year began on July 1, 2019 but objectives were approved six months later in January 2020, when the AOC approved objectives for all locations except UC Health and UC Riverside. The FY 2019-20 objectives for UC Health and UC Riverside were approved in June 2020, the last month of the plan year.

Action Plan:

HR Compensation will confer with the AOC on timing of objectives for the new year to see if the plan document should be updated to reflect actual cycle times. If needed, HR Compensation will request Regental approval of changes to the plan.

Target date:

September 30, 2020

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Associate Chief Experience Officer					Tier III		
Assoc VP, UC Health Chief Strategy Officer							Tier II
Chief Admin. Officer			Tier II		6 @ Tier II		
Chief Ambulatory Officer		Tier II	Tier II				
Chief Clinical Officer					Tier II		
Chief Communications Officer\CCO & Chief Marketing Officer			2@Tier II		Tier II		
Chief Contracting Officer					Tier II		
CEO / President Health System	Tier I	Tier I	Tier I	Tier I	Tier I	Tier I	
CEO, El Centro					Tier II		
CFO/CFO Childrens Svcs/CFO Faculty Practice / CFO-VP-Adult Services	Tier II	Tier II	2 @ Tier II		Tier II	5 @Tier II	
Chief HR Officer/SVP HR/Chief Admin & HR Officer			Tier II		Tier II	2@ Tier II	
CIO /SVP CIO/Exec Dir Clinical IT	Tier II	Tier II				Tier II	
Chief Innovation and Strategy Officer	Tier III				Tier II		

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
CMO/ VP CMO at Benioff Children's Hospital Oakland/ UC Health Medical Director	Tier II	Tier II				1@ Tier II and 2 @ Tier III	Tier II
CNO/Chief (UCLA), Chief (UCD) Patient Care Svcs Officer, Nursing Director – Emergency Svce	1@ Tier II, 1@ Tier III	Tier II	Tier II			Tier II	
COO - Medical Center/VP Med Center Administration -	Tier II	Tier II	Tier II	Tier II	Tier II	1@ Tier II 2@Tier III	
Chief Pharmacy Office/Vice President-Clinical Svcs						Tier II	
Chief Strategic Planning Officer /Chief Strategy Officer /Chief Strategy Officer Children's Svcs /Exec Dir Strategy & Business Dev./AVC Strategic Communications/Chief Transformation Officer			Tier II		Tier II	2 @Tier II	Tier II
Controller/ Controller CHO/VP Accounting (UCSF)/Controller BCHO	Tier III					1@ Tier II 1@Tier III	
CIO Bay Health						Tier II	
Director Clinical Ops, Managed Care	Tier III						
Director Finance/Exec. Dir. Financial Ops	Tier III						
Director Health Sci Finance and Admin	Tier III						

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Director Health System Contracts	Tier II						
Director Patient Care Services	4 @Tier III						
Director Payer Strategies	Tier III						
Exec. Advisor for Children's Health						Tier II	
Exec. Dir. Enterprise Networked Data Warehouse						Tier II	
Exec. Dir Patient Experience/Patient Services	Tier III						
Exec. Dir Facilities/VP Facilities	Tier III					Tier II	
Exec. Dir Perioperative Nursing	Tier III						
Exec. Dir Professional Services	2@Tier III						
Exec. VP Physician Services/vice Dean Clinical Affairs						Tier II	
Exec. Vice Chancellor 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	

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

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 Marketing & Brand Mgt			Tier II			Tier II	
Vice President – New Hospital Operations, Plan & Activation						Tier III	
Vice President, Population Health						Tier II	
Vice President, Revenue Cycle/ Revenue Cycle Administrator/Director Revenue Services	Tier III				Tier II	Tier II	
Vice President Quality						Tier III	
Vice President – Medical Center Administration						Tier II	

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

APPENDIX A

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Vice President - Strategic Development / VP Strategy-Cancer Enterprises						3 @ Tier III	
Vice President Supply Chain						Tier II	
SVP Children's Services & President Benioff Children's Hospital						Tier II	

**FY20 CEMRP Eligible Titles and Tiers
as of September 2019**

APPENDIX A

SUMMARY					
	Location	Tier I	Tier II	Tier III	FY20 Total Eligible Positions
NOTABLE OBSERVATIONS - UCSF has significantly more participants in the Plan than any other location. - Only UCSF, UCSD, and UC Davis have Tier III participants in FY20. - UCSF has the most vacancies.	UC Davis	1	6	17	24
	UC Irvine	1	6	0	7
	UCLA	1	12	0	13
	UC Riverside	1	1	0	2
	UC San Diego	1	16	1	18
	UCSF	1	33	14	48
	UC Health	1	3	0	4
	Total	<u>7</u>	<u>77</u>	<u>32</u>	<u>116</u>

Totals include vacancies: UC Davis-2, UC Irvine -2, UCLA-1, UCSF-5