June 27, 2019

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7897

***Subject:*** ***CARE Payment Supplement***
***Report 2019-12***

The final report for *CARE Payment Supplement, Report 2019-12*, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans 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. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

David Meier
Director
Audit & Management Advisory Services

Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

# CARE Payment Supplement
# Report No. 2019-12
# June 2019

## FINAL REPORT


**Performed By:**

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# I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of CARE Payment Supplement as part of the approved audit plan for Fiscal Year (FY) 2018-19. The objective of our review was to evaluate whether internal controls provide reasonable assurance that processes for CARE Payment Supplement funds were effective, and the transfer of funds was accurate and timely.

We concluded that internal controls provided reasonable assurance that processes for CARE Payment Supplement funds were effective, and the transfer of funds from UCSDH to HPG was accurate and timely. The CARE Payment Supplement is calculated monthly using automated and methodical approach and communicated timely to appropriate offices for processing of fund transfer from the UCSDH Finance.

We noted that while UCSDH Leadership and HS Departments have access to various financial reports, available reports were not geared towards communicating and providing insight to the CARE Payment Supplement. As the CARE Payment model evolved, the tools required to understand and monitor the Supplement required to meet physician compensation benchmarks were located in different places which could be inefficient for decision-making. Understanding and evaluating specific components that drive the required support would be key to more effective communication. Management action plans to address this observation are summarized below.

**A. Evaluation and Communication**

1. HPG Decision Support is currently working on a consolidated report that tracks and measures compensation and productivity against benchmark using over 90 performance metrics.

2. Management will develop a report and process for routine periodic communication of the CARE Payment and CARE Payment Supplement to UCSDH leadership and HS departments, which will serve to improve visibility of the Supplement and support management decision-making

Management agreed to all actions recommended to address risk in this area. Observations and related action plans are described in greater detail in section V. of this report.

## II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of CARE Payment Supplement as part of the approved audit plan for Fiscal Year (FY) 2018-19. This report summarizes the results of our review.

In 2015, UC San Diego Health (UCSDH) implemented changes to the model for physician clinical compensation by introducing the Clinical and Reimbursable Event (CARE) Payment Model[1]. Under this model, physicians are paid a CARE Payment for professional services provided to UCSDH patients. The CARE payment is derived by multiplying the Relative Value Units (RVU)[2] earned from billed professional services by the CARE Payment rate established for each specialty bill area. The rate is based on the dollar per Work RVU (WRVU) three-years rolling average at the MGMA[3] 50th percentile ranking by specialty. The CARE Payment is calculated at the provider level, MGMA specialty, and bill area index. Each month, the UC San Diego Health Physician Group (HPG) provides a workbook to the Vice Chancellor for Health Sciences (VCHS) Controller, through its Business Applications Development Group (BADG), itemizing the CARE payment for each specialty bill area index for allocation of funds to participating Health Sciences (HS) departments. HPG then transfers a lump sum amount to VCHS, and these funds are used by departments for clinical compensation.

In FY 2018, HPG reported $220 million in CARE Payment expense (or 39% of total HPG operating expenses). This is shown in HPG financial report as labor expense as it represents payment to physician providers. In many cases, revenues received by HPG for professional services were not sufficient to fund physician clinical compensation costs under the CARE Payment model. This could be due to sub-optimal billing and collections practices, payor mix, or other factors included in provider clinical compensation. As a result, UCSDH provides supplemental funding to the HPG to offset the difference between revenues and the CARE Payment commitment. The CARE Payment Supplement represents UCDH support to meet provider compensation at the MGMA benchmark. The following table shows the CARE Payment expense and amount supplemented by UCSDH in FY 2017 and FY 2018.

*Table 1*

| HPG ('000) | FY 2017 | FY 2018 |
|---|---|---|
| Net Patient Revenue | $304,338 | $348,691 |
| CARE Payment Expenses | $193,341 | $219,926 |
| Total Operating Expenses | $489,006 | $564,991 |
| % of Operating Costs | 40% | 39% |
| Net Loss Before UCSDH Support | ($107,451) | ($128,273) |
| CARE Payment Supplement | $63,420 | $70,670 |
| % of CARE Payment Expense | 33% | 32% |

[1] Not all clinical specialties and bill areas currently participate in the CARE payment model.
[2] The total RVU (TRVU) is made up of three components: work RVU, Practice Expense RVU, and Malpractice RVU. The proportion at which these components make up the TRVU varies based on the values defined by the Centers for Medicare and Medicaid Services (CMS) by Current Procedural Terminology (CPT) Code. *(Source: HPG CARE Payment Supplement Document)*
[3] Medical Group Management Association (MGMA) is a professional association of medical group practices that provides benchmarking data gathered from participating members survey responses.

The amount of CARE Payment support received from UCSDH reduced HPG net operating loss in FY 2018 by 55%.[4] Table 2 itemizes the FY 2018 CARE Payment by HPG units and the portion received from UCSDH.

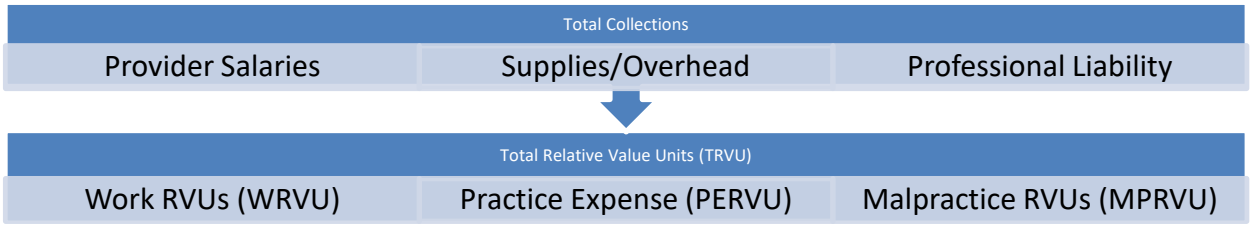
*Table 2*

| HPG Units | CARE Payment | CARE Payment Supplement | % |
|---|---|---|---|
| Cardiovascular | $17,125,826 | $5,976,642 | 35% |
| Medicine Specialties | $103,855,625 | $27,690,757 | 27% |
| Oncology | $26,255,455 | $12,994,817 | 49% |
| Primary Care | $1,218,374 | $92,382 | 8% |
| Strategy* | $5,757,108 | $2,208,643 | 38% |
| Surgical Specialties** | $65,712,124 | $21,707,273 | 33% |
| Total | $219,924,514 | $70,670,514 | 32% |

**For one affiliation partner*
***Except General Surgery & Ophthalmology*

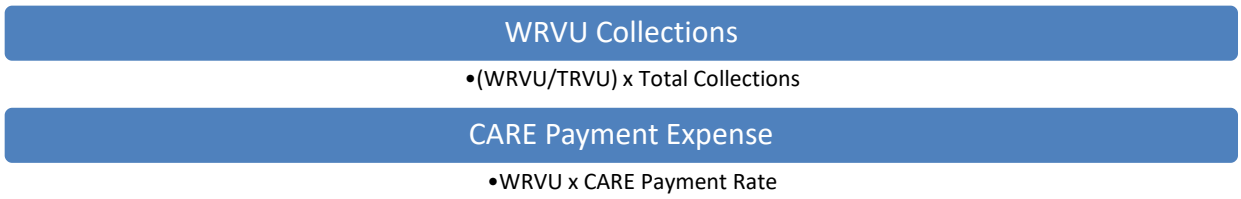
The total dollar amount transferred by UCSDH to HPG monthly is calculated through an automated process using a series of Structured Query Language (SQL) scripts and algorithms that identifies specific billing and collection data in Epic and external billing services. Total collections from billed professional services are intended to be distributed in the same proportion as the total RVU *(Fig.1)*. The calculation *(Fig.2)* is performed at the index level assigned to each clinical specialty and bill area or location[5].

*Figure 1*




*Collections from billed professional services are intended to be distributed in the same proportion as total RVU components.*

*Figure 2*




*CARE Payment Supplement is the amount by which CARE payment to HS departments exceeds the portion of total collections from billed professional services related to work RVU.*

[4] HPG sustained 15.4% net operating loss despite the Supplement. *(Source: HPG Unaudited Statement of Revenues and Expenses)*
[5] This level of detail is required for proper allocation of CARE Payment funds to HS Departments.

The CARE Payment Supplement helps ensure sufficient funding is available for HPG (and HS Departments) to pay physician providers at the MGMA benchmark. Various reports are available to track collection performance and physician productivity.

## III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to evaluate whether internal controls provide reasonable assurance that processes for CARE Payment Supplement funds were effective, and the transfer of funds was accurate and timely. In order to achieve our objective, we performed the following:

- Reviewed processes and methodologies, documentation and systems supporting CARE Payment and CARE Payment Supplement calculation;
- Interviewed the following:
    - Assistant Dean for Clinical Affairs,
    - Health Physicians Group Accounting Director,
    - Health Physicians Group Decision Support Supervisor,
    - Revenue Cycle Analyst;
- Reviewed the following documents:
    - CARE Payment Supplement calculation methodology,
    - CARE Payment Supplement calculation workbook,
    - Health Physicians Group Financial Reports,
    - Accounting Journal Vouchers supporting CARE Payment Supplement transfer from UCSDH Finance to HPG,
    - HPG Financial Dashboards for selected specialties;
- Validated the CARE Payment transfers in FY 2018 and July through December 2018 of FY 2019;
- Reviewed and analyzed data included in CARE Payment Supplement calculation;
- Evaluated individual subspecialty CARE Payment Supplement for selecting our sample for additional detailed review; and
- Evaluated available financial reports for identifying factors impacting CARE Payment Supplement for selected sample subspecialty and bill areas.

## IV. CONCLUSION

Based on our review, we concluded that internal controls provided reasonable assurance that processes for CARE Payment Supplement funds were effective, and the transfer of funds from UCSDH to HPG was accurate and timely. The CARE Payment Supplement is calculated monthly using automated and methodical approach and communicated timely to appropriate offices for processing of fund transfer from the UCSDH Finance. HPG coordinates with Decision Support throughout this process to ensure timeliness and accuracy of information. UCSDH Finance executes the transfer via an accounting journal which HPG reviews and reconciles with the general ledger on a monthly basis for verification. The CARE Payment Supplement is reported in the HPG Revenue and Expense report as a line item for equity transfer from UCSDH.

We noted that while UCSDH Leadership and HS Departments have access to various financial reports, available reports were not geared towards communicating and providing insight to the CARE Payment Supplement. As the CARE Payment model evolved, the tools required to understand and monitor the Supplement required to meet physician compensation benchmarks were located in different places which could be inefficient for decision-making. Understanding and evaluating specific components that drive the required support would be key to more effective communication.

## V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

| A. | Evaluation and Communication |
|---|---|
| The amount of UCSDH support required to support physician compensation at the MGMA 50th percentile benchmark was not always apparent and regularly reviewed or communicated. | |
| **Risk Statement/Effect** | |
| Lack of periodic review and evaluation of CARE Payment Supplement and data elements contributing to the required support precludes timely identification of controllable factors requiring attention. | |
| **Management Action Plans** | |
| A.1 | HPG Decision Support is currently working on a consolidated report that tracks and measures compensation and productivity against benchmark using over 90 performance metrics. |
| A.2 | Management will develop a report and process for routine periodic communication of the CARE Payment and CARE Payment Supplement to UCSDH leadership and HS departments, which will serve to improve visibility of the Supplement and support management decision-making. |

### A. Evaluation and Communication – Detailed Discussion

The CARE Payment Supplement represents the amount of support from UCSDH to the HPG required to meet provider compensation at 50th percentile of the MGMA benchmark. However, we noted that this information was not always apparent to specific specialties or departments for timely evaluation and communication. While UCSDH Leadership and HS Departments have access to various financial reports, current available reports were not geared towards communicating and providing insight to the CARE Payment Supplement. Productivity and revenue cycle performance are normally tracked separately for different management purposes. It seemed that as the CARE Payment model evolved, the tools required to understand and monitor the support to meet benchmark were located in different places which may be inefficient for decision-making. Periodic review of the relationship between factors affecting revenue cycle performance, provider productivity, volume and utilization, as well as compensation benchmarks could provide an additional tool for evaluating UCSDH support required for a specific clinical specialty or HPG as a whole.

In order to evaluate the factors which contribute to increased CARE Payment Supplement, we reviewed a small sample of clinical specialties and evaluated data provided in various reports available to HS departments. The specialties were selected based on the following:

- CARE Payment is 90% and above or exceeds Net Revenues (noted 22 subspecialties)
- CARE Payment Supplement is more than 30% of the CARE Payment required (noted 34 subspecialties)
- Billing and Collection is performed internally (for availability of Financial Dashboard Report)

Based on the above, we selected two specialties with high volume WRVUs and two with low volume WRVUs. These specialties, and key metrics for each, are provided below in Table 3.

*Table 3*

| Selected Units | CARE Payment Supplement ('000) | % of CARE Payment | CARE Payment WRVUs | Avg. CARE Payment$ /WRVU | Total Collections/WRVU | MGMA Payment/ wRVU (Median) |
|---|---|---|---|---|---|---|
| Cardiology | $3,933 | 36% | 173,668 | 62.46 | 69.62 | $61.33 |
| Clinical Oncology Medicine* | $3,825 | 58% | 68,236 | 97.99 | 72.08 | $100.27 |
| Hepatology* | $1,070 | 52% | 29,687 | 70.27 | 59.57 | $76.91 |
| Psychiatry | $2,930 | 40% | 114,564 | 63.71 | 72.09 | $69.33 |

**Total Collection/WRVU is below the MGMA and CARE Payment per WRVU for specialties with low RVU volume*

We reviewed the following reports to evaluate the effectiveness of communicating CARE Payment Supplement:

- *The Revenue Cycle Financial Dashboard* – This report provides revenue cycle performance using Professional fee billing and collection metrics that focuses on past performance but not against requirements/expectations or standards and competition. Changes in productivity could result from a number of factors such as expansion, attrition, and system changes that are not reflected in the dashboard. The report helps in understanding collection performance and payor mix, however, emphasis on payment per WRVU may be helpful in evaluating UCSDH support required, as well as driving improvements or evaluating an investment strategy. The report is available to departments on a monthly basis in pdf format. During our review, we were advised that Decision Support is working on format revision to provide the ability to drilldown to supporting details.

- T*he CARE Payment Supplement Worksheet* – This worksheet provides details of the CARE Payment and Supplement calculation per bill area index number. The worksheet is provided to SOM BADG as support document for the amount of CARE Payment transfer to departments, and amount of support from UCSDH as part of the CARE Payment. The total amount per month supports the amount of Supplement transferred from UCSDH to HPG.

- *The HPG Revenue and Expense Statement* – This report provides details of billed charges, collections and associated HPG expenditures excluding faculty salaries. The report is available to UCSDH leadership and HS departments each month and can be drilled down by specialty or

bill area. The report includes a line item showing CARE Payment Supplement as an equity transfer. However, emphasis on how much the Supplement reduces the burden of CARE payment to HPG when professional services collection may be helpful in evaluating a specialty requirement for UCSDH support.

We noted several elements on these reports that could impact CARE Payment and required Supplement. Of the four selected samples, we noted that total collection rate per WRVU was significantly below the MGMA and CARE Payment per WRVU for specialties with low WRVUs *(Table 3).* We identified controllable factors such as WRVUs, billing and collection performance, as well as other elements such as MGMA benchmark and payor mix. Various financial reports are available to executive leadership and department management where support could be more visible. A single report that captures specific performance metrics appropriate for evaluating the support required would be helpful. The volume of data and possibilities are unlimited, however, the tools available were limited for a full evaluation of each component and identification of meaningful information to assist in understanding and communicating specific elements that impact the CARE Payment requirement.

During our review, we were advised that HPG Decision Support was in the process of designing a Compensation and Productivity report which would evaluate performance using over 90 metrics against benchmark and compensation related to productivity. The report is expected to roll out in the next fiscal year to management. The report will combine revenue cycle, benchmark and compensation data, and could be helpful in improving visibility of metrics impacting the CARE Payment Supplement.

We were also advised that UCSDH leadership takes into consideration the CARE Payment and CARE Payment Supplement in ad-hoc reports for evaluating new business plans. In addition, the Expenditure Commitment Committee has begun looking into the CARE Payment Supplement per RVU as a specific requirement in reviewing requests for recruitment of physicians and advanced practice professionals. A more routine process for evaluating these metrics would further support management decision-making.