

The logo for UC Irvine, featuring the letters "UCIRVINE" in a large, black, serif font. A vertical line is positioned to the right of the text, separating it from the "INTERNAL AUDIT SERVICES" text.

INTERNAL
AUDIT SERVICES

UC Irvine Health
Contract Management

Internal Audit Report No. I2017-205

April 18, 2017

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INTERNAL AUDIT SERVICES
IRVINE, CALIFORNIA 92697-3625

April 18, 2017

**CONNIE WONG
INTERIM DIRECTOR
CONTRACTING DEPARTMENT**

**RE: UC Irvine Health Contract Management Review
Report No. I2017-205**

Internal Audit Services has completed a review of UC Irvine Health Contract Management and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Mike Bathke

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
Teresa Conk - Associate Vice Chancellor, Clinical Integration and Chief Strategy Officer

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2016-2017 audit plan, Internal Audit Services (IAS) reviewed certain contracting processes and systems within the UC Irvine Health Contracting Department (CD). The review disclosed that progress has been made in contracting processes for service agreements but there are additional opportunities for improvement.

Contract Management Processes – Service agreements were sampled from clinical departments and compared to copies of similar agreements stored in CD. Some sampled agreements could not be located in CD and other agreements lacked required signatures for contract execution. In addition, fair market value analyses (FMVs) for service agreements were not always documented/retained. This observation is discussed in section V.1.

Contract Management Systems – A review of the Meditract contract management system and the Letter of Agreement (LoA) database disclosed some concerns. The active user file in Meditract contains some users who are no longer active. In addition, for both Meditract and the LoA database, it is difficult to determine when an active user changes to a different position that does not require system access. This observation is discussed in section V.2.

Internal Policies and Procedures – Internal policies and procedures need updating to reflect new/best practices. This observation is discussed in section V.3.

II. BACKGROUND

The stated mission of CD is to develop and negotiate contracts with third party payors, including health plans and medical group/IPAs, on behalf of UC Irvine Health. CD serves as the liaison between contracted payors and the billing departments to handle contract interpretation and reimbursement issues.

Currently, CD contracts on behalf of the UC Irvine Medical Center, UC Irvine Health Physicians & Surgeons, departments within the UC Irvine School of Medicine, and the UC Irvine Health Specialty and Family Health pharmacies. Contract categories include, but are not limited to health plans, referral medical groups, government entities, service agreements, and one time letters of agreement.

CD is managed by an interim Director of Contracting who reports to the UC Irvine Health Chief Strategy Officer. The Director is currently assisted by two contracts managers and an administrative assistant (.5 FTE). Two additional positions (Senior Contracts Manager and Contract Manager) are currently open.

III. PURPOSE, SCOPE AND OBJECTIVES

The purpose of the review was to determine how CD manages service agreements and to evaluate the effectiveness of contracting practices. The audit scope included FY 2016-2017 and prior years' contracting activities.

The following objectives were included in the review:

1. Determine the roles and responsibilities of CD. Determine the alignment of expenditures with department responsibilities.
2. Determine the contract categories CD works with, and the processes by which these contracts are managed. Primary focus will be service agreements.
3. Determine the clinical departments that CD assists in developing and executing service agreements. Determine whether CD's master lists of service agreements corresponds with those maintained by the clinical departments.
4. Determine whether fair market value analyses are completed for service agreements, and whether CD retains copies of all service agreements. Determine that service agreements are renewed before expiration.
5. Determine that CD maintains internal policies and procedures for contracting practices. Determine that CD and clinical departments have written internal guidelines in place for co-managing service agreements.
6. Determine the contract management systems that assist CD with the contracts they manage. Determine whether processes are in place to assure that only authorized, active employees have system access.

IV. CONCLUSION

Progress has been made in contracting processes for service agreements, however further opportunities for improvement exist. Service agreements could not always be located in CD, and some other concerns were noted. In addition, the Meditract contract management system active user file is not kept up-to-date, and it is difficult to determine when active users change to a position that does not require system access. Furthermore, CD internal policies and procedures may need to be updated to reflect new and/or best practices.

Observation details were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. DISCUSSION AND ANALYSIS

1. Contract Management Processes

Background

The Meditract contract management system was obtained by CD to assist in contract management processes. However, storage space was limited; only the highest value contracts are stored in Meditract. For service agreements, CD utilizes spreadsheets to create master lists for clinical departments. The master lists are utilized by CD to manage service agreements.

Observation

To review contract management processes for service agreements, fourteen service agreements were selected from the master lists of clinical departments. The sampled service agreements were compared to copies of the same agreements retained in CD. The following results were obtained.

- Eight of the sampled service agreements could not be located in CD.
- Two of the six service agreements that were found lacked required signatures for contract execution, and signature dates were missing on some agreements.

- Fair market value analyses for service agreements were not always documented/retained. However, CD is currently working with clinical departments in developing effective FMV analyses for service agreements.

CD should consider utilizing an automated contract management system for service agreements, as spreadsheets are difficult to maintain and may result in lost/unexecuted agreements, and/or agreements that expire before renewal.

Management Action Plan

By July 31, 2017, management will identify a contract management system for service agreements, with implementation of such contract management system by no later than October 31, 2017. Management will continue to monitor timely completion of agreements with appropriate signature documentation and ensure they are maintained on file.

2. Contract Management Systems

Background

There are two automated systems utilized by CD to manage contracts and agreements. These systems include the Meditract contract management system, with 460 active users, and the LoA database with 645 active users.

Meditract provides an electronic, web-based contract storage solution. However, the Meditract active user database requires manual updating. Conversely, the LoA database was developed and is managed in-house, and the active user database is updated automatically.

In addition, a sharepoint drive and hard copy files are used to store contracts that are not stored in Meditract or the LoA database.

Observation

A review of both automated systems disclosed the follow results.

- Meditract – A sample review of 72 (15 percent) Meditract active users disclosed seven users with incomplete information (missing names, etc.). Sixteen other users were from outside organizations and may no longer

need system access. Several retirees and former employees are listed as active users. Furthermore, some active users may have changed positions and may no longer require Meditract access.

- LoA Database - A sample review of 96 (15 percent) LoA database active users disclosed that all users are current employees. However, there is not an easy way for CD to determine when an employee changes to a different position and continues to retain access to the LoA database. This is also true with Meditract.

Only authorized, active employees and contractors should have access to Meditract and to the LoA database.

Management Action Plan

MediTract: By July 31, 2017, management will ensure re-training of staff members on the user management process for MediTract. A review of the entire active user database will be performed.

LoA Database: By July 31, 2017, management will work with internal LoA Database developers to discuss the possibility of adding capability to monitor when an employee changes to a different position that does not require access to the LoA database.

3. Internal Policies and Procedures

Observation

Discussions were held with management and a review of current internal policies and procedures for service agreements was performed. Policies and procedures (P&P) for managing service agreements do not appear to have been updated since 2015, and may not reflect new and/or best practices. For example, current P&P does not discuss the completion of fair market value analyses for service agreements to ensure that costs are covered and a fair return is provided.

Management may also want to consider developing/updating written internal guidelines with clinical department customers to ensure that roles and responsibilities are well-defined, and processes for co-managing service agreements are efficient and effective.

Management Action Plan

By June 30, 2017, management will develop a “Service Agreement and MOU Toolbox”. The toolbox will include updated policies and procedures for the Service Agreement and MOU contracting processes. The P&P will address the need for fair market value analysis.