

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

Medical Centers Clinical Enterprise Management Recognition Plans
Audit No. P23A006
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Executive Summary

Introduction

As part of the University of California Office of the President (UCOP) Fiscal Year (FY) 2022-23 audit plan, Internal Audit completed an audit of the FY 2021-22 Clinical Enterprise Management Recognition Plan (CEMRP1) for UC Health and the six local UC health systems: UC Davis Health, UCSF Health, UC Riverside Health, UC Irvine Health, UCLA Health, and UC San Diego Health.

CEMRP1 (the Plan), established by the Regents in July 2010, provides variable financial incentives to those employees responsible for attaining or exceeding key clinical enterprise objectives.¹ 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. Documented guidelines 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 local health system leadership, the chancellors, UC Health, and an independent Administrative Oversight Committee (AOC), which is described in more detail below. The performance 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 three ratings are used to determine award amounts: participant performance, the local health system's (institutional) performance, and systemwide (clinical enterprise) performance. If a participant's total cash compensation is more than the established threshold of \$369,200, their award is reported to the Regents. In addition, the Regents must approve the award for the EVP-UC Health. Tier I participants (the Executive Vice President, UC Health and health system CEOs and Presidents) are evaluated based on common long-term objectives and do not have individual performance objectives. The plan establishes three levels of award opportunities, which in ascending order are "Threshold," "Target," and "Maximum."

The AOC is assigned oversight of the Plan, including development, governance, and interpretation. Membership consists of 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. During its deliberations the AOC may consult with the Executive Vice President, UC Health and, if it has any questions about the application of the Political Reform Act, UC Legal. The Senior Vice President – Chief Compliance and Audit Officer assures that periodic auditing and monitoring occurs, as appropriate. Changes to the Plan that are not material may be approved by the AOC, although 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, a combination of systemwide, institutional, and participant performance determines each participant's payout, which ranges from \$0 to a maximum amount calculated for each individual.

Health system employees who are responsible for attaining or exceeding key clinical enterprise objectives, but are not eligible to participate in CEMRP1, can participate in CEMRP2. The AOC also provides oversight of CEMRP2.

Objective and Scope

The primary objective of this audit was to assess the accuracy of the FY 2021-22 CEMRP1 award calculations and compliance with the Plan. We reviewed the systemwide and institutional performance and a sample of participant performance results, and we verified the accuracy of the award calculations. For the sample of participants, we also reviewed supporting documentation related to quantitative institutional and systemwide objectives.

We also assessed the FY 2022-23 CEMRP1 systemwide and institutional performance objectives for compliance with the Plan, and the compliance with the Plan of a sample of participants' objectives.

We reviewed the sources of funds used by the health systems and by UC Health to pay out the FY 2021-22 participant awards for both CEMRP1 and CEMRP2, reconciled the award payments to the approved amounts (CEMRP1) or estimated maximum amounts (CEMRP2), and calculated variances, if any. For CEMRP2, we verified that final payouts were reported to the AOC.

For CEMRP1, we also identified FY 2022-23 participants by position title, organization, and tier; and we calculated the total number of participants by location and by tier (Appendix A).

Overall Conclusion

For CEMRP1, we did not identify any participant award calculation errors in the sample we selected and the fund sources appeared appropriate.

For CEMRP2, we did identify some awards that were paid from sources that were not allowable. Specifically, at three local health systems, some participants were paid using state funds, contract and grant funds, or gift and endowment funds.

In addition, we noted:

- Long-Term Incentive results were initially reported using a measure that differed from that approved by the AOC. Using the unapproved measure resulted in UC Health's attainment of the Target level for this objective. However, using the version of the measure approved by the AOC for the 2021-22 plan year resulted in UC Health attaining the Threshold level for this objective. This discrepancy was appropriately resolved before the awards were processed.
- We noted differences between the measures related to the audited financial statements used by those Health Systems with a financial objective.
- Participant workbooks include two fields that are not consistently used by all local health systems: the signature line and the performance rating.
- Systemwide Human Resources (HR) had not yet reported actual CEMRP2 award totals for each health system to the AOC for review nor had it obtained required attestations from the CEOs.

- Documentation sufficient to support individuals’ attainment of CEMRP1 objectives was unavailable in one case and not readily available in several others.

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

Opportunities for Improvement and Action Plans

1. Some participant awards were paid with unallowable funds.

Per the CEMRP Administrative Guidelines regarding funding sources, each location is to ensure that “only health center revenues are to be used: no state or general funds.” However, three local health systems used fund sources that were not allowable for some CEMRP2 participant payments (Earn Code XCI), which they subsequently corrected.

Plan	Total Awards	Amounts Paid from Fund Sources that were not Allowable	Corrections
CEMRP1	\$10,001,872	\$0	\$0
CEMRP2	\$85,066,361	\$406,725	\$406,725
Combined	\$95,068,233	\$406,725	\$406,725
Error Rate		0.43%	

Data as of February 10, 2023

All corrections were made and verified prior to the end of fieldwork:

- UCSF Health made eight payments to medical school participants from funds that were not allowable, totaling \$75,344.
- UC Irvine Health identified seven payments from funds that were not allowable when preparing its data for Internal Audit, totaling \$16,711.
- UCLA paid \$314,670 in awards from endowment, state, contract and grant, and gifts & endowment funds. UCLA identified payments from three funds that were not allowable totaling \$304,659 and Audit identified an additional \$10,011 from five other funds that were not allowable.

In the prior year’s audit report, P22A002, issued August 9, 2022, we noted that UCSF paid one person and UC Irvine Health paid two people from state funds, and that UCLA had paid participants \$230,765 from endowment, state, and federal contract and grant sources. The sources of these payments have all been corrected.

UCLA also determined that \$3,524,907 of payments assigned the CEMRP2 earn code of XCI were not for CEMRP awards. It had used the XCI code for both CEMRP2 awards and for non-CEMRP staff compensation.

Action Plans:

Systemwide HR will reiterate the guidance to the Health Systems to verify the award fund sources in advance of payouts using the report developed by UCPath. It will also provide an alternate earnings code for non-CEMRP staff compensation payments so that CEMRP2 payments can be isolated and more easily confirmed.

Target date: Completed. Internal Audit will validate this action as part of its standard follow-up process to verify implementation of corrective actions resulting from this audit.

2. UC Health initially reported Long-Term Incentive (LTI) results using a measure that did not align with the language approved by the AOC.

LTI results affect only the calculations of awards for the EVP UC Health and the Health System CEOs. In one instance, UC Health revised the wording of a systemwide LTI CEMRP measure for FYs 2018-19 through 2021-22. As a result, the wording no longer aligned with the language approved by the AOC. UC Health communicated the result of this revised measure to the local health systems prior to review and verification by Systemwide HR. Systemwide HR and Internal Audit both noted the change in the wording of the measure, and Systemwide HR subsequently submitted results that were aligned with the approved wording to the AOC for consideration. The AOC then approved the results using the measurement it had approved at the start of the 2021-22 plan year, which resulted in a Threshold result for this objective. Each local health system then updated its award calculation, which decreased the proposed award amounts for the EVP UC Health and local health system CEOs.

Systemwide HR reiterated to UC Health that both short-term and long-term systemwide results should be routed to Systemwide HR for review, confirmation, and distribution to the local health systems.

Action Plans:

Systemwide HR will communicate the results of systemwide objectives to the Health Systems after it reviews and verifies those results.

Target date: Completed. Internal Audit will validate this action as part of its standard follow-up process to verify implementation of corrective actions resulting from this audit.

3. Institutional financial objectives vary between local health systems.

Some institutional objectives reference the audited financial statements. We noted that components of these objectives varied between those local health systems that used financial objectives in FY 2021-22 and FY 2022-23. Below are examples from the FY 2022-23 objectives.

UCLA - Net Operating Margin (margin before non-operating revenue/expense) improvement through revenue enhancements or expense mitigation to sustain needs of Health Sciences. Operating Income will exclude variances to budget for UCOP system-wide professional fee or other contracts, UCOP mandated initiatives or payments, any strike related costs, assumptions of

union settlements above planned/current amounts, any state or legislative regulations and/or any other delays in payment or mandates, and changes in actuarial non-cash benefit assumptions resulting in changes to estimates provided by UCOP used in this budget.

UC Irvine - Modified EBIDA (Operating Earnings Before Interest, Depreciation and Amortization). This metric is further modified by eliminating actuarial-based pensions and health care retiree costs where the cost can fluctuate based on estimates, market drivers and decisions made at the UCOP level.

Allowing local health systems to use different CEMRP financial objectives that reference the audited financial statements increases the risk that these objectives and the calculations for objective attainment could be improperly manipulated. Accordingly, Internal Audit recommends that the Office of the Chief Financial Officer either (a) propose for the AOC's approval a required methodology for financial-related objectives tied to audited financial statements or (b) implement a process to review and approve all CEMRP financial-related objectives tied to audited financials and the calculations supporting the attainment of those objectives subject to approval by the AOC.

Action Plans:

- a. *UC Finance proposed a single required methodology for financial-related objectives. Annually, the Systemwide Controller's office will prepare a calculation of modified EBIDA after the annual audit is completed for each local health system and in total for UC Health. This calculation will be based on total revenues and total expenses, less non-cash items (interest expense, depreciation expense, non-cash pension expense and non-cash OPEB expense). The calculation will be based on the audited financial statements. UC Finance proposed this as the financial objective for each local health system.*
- b. *Systemwide HR will present UC Finance's proposed methodology to the AOC for its consideration.*

Target Dates:

- a. *Completed prior to issuance of this report.*
- b. *June 30, 2024*

4. Participant workbooks need updating.

Participant workbooks include two fields that are not consistently utilized, namely, the signature line, which is never completed, and the performance rating field. The signature line is unnecessary because the process is completed via email, thus there is no need to print a copy and circulate it for a signature.

Per the CEMRP Plan, in order to receive an award, a participant must have a performance evaluation rating of at least "Meets Expectations" for the plan year. There are differences in the rating scales at different local health systems (alpha vs. numeric and/or varying scales and descriptions). Some local health systems provide the rating detail on the workbook, such as on a scale of 1 – 5, which is more detailed than the requirement. Other local health systems do not document each participant's rating in the workbook. Systemwide HR stated that all local health

systems confirm that participants receiving awards have a minimum rating of Meets Expectations, and that awards are not calculated by a local health system for any participant not meeting the minimum rating requirement.

Action Plans:

Systemwide HR will:

- a. *Revise the participant workbooks to eliminate the two fields.*
- b. *Ensure the health systems include in their year-end attestations that the CEMRP participants submitted for awards have received a performance rating of “Meet Expectations” or higher, noting which CEMRP participants approved for participation will not receive awards due to their performance rating or other factor.*

Target Date: Completed. Internal Audit will validate this action as part of its standard follow-up process to verify implementation of corrective actions resulting from this audit.

5. Certain documents required by the Plan are outstanding.

The Plan requires Health System CEMRP Coordinators to provide Systemwide HR each CEO’s attestation that “final award payments are accurate and in compliance with the Plan document.”

CEMRP2 actual payouts are required to be reported to the AOC. This action was put on hold by Systemwide HR while UCLA resolved the issue noted in opportunity for improvement number 1 above.

Action Plans:

Systemwide HR will:

- a. *Obtain the CEO attestations from the Health Systems and provide copies to Internal Audit.*
- b. *Provide the final CEMRP2 award payouts to the AOC for its review and provide Internal Audit a copy of the meeting minutes and attachments, once UCLA determines its amount.*

Target Dates:

- a. *Completed prior to issuance of this report.*
- b. *June 30, 2024*

6. Sufficient documentation supporting attainment of CEMRP1 individual objectives was unavailable in one case and not readily available in several others.

UC Davis was unable to provide sufficient documentation for one of its former CFO's individual CEMRP1 objectives despite a supplemental request by Internal Audit. This objective required that a participant complete eight of ten components to qualify for the maximum award. However, UC Davis provided sufficient documentation for only six of those components.

Similarly, several local health systems initially provided documentation that was not sufficient to support the attainment of certain CEMRP 1 individual objectives. Some of those local health systems had difficulty locating additional substantive documentation in response to supplemental

requests from Internal Audit. Currently, there is no requirement in the plan that local health systems retain such documentation. However, in the absence of such documentation it may not be possible to substantiate whether participants' awards were appropriate.

Action Plans:

- a. UC Davis will provide additional documentation that demonstrates its former CFO attained eight of the ten components of individual objective number three (UC Davis has provided sufficient documentation to support attainment of six of the components). If it is unable to locate such documentation, the AOC should assess whether this award was appropriate.*
- b. Systemwide HR should recommend to the AOC that it consider amending the plan to require that local health systems maintain documentation substantiating participants' attainment of the relevant objectives.*

Target Dates:

- a. June 30, 2024*
- b. June 30, 2024*

Table 1
 FY 2022-23 CEMRP Eligible Titles and Tiers
 (As of July 2022)

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
Assoc. Chief Info. Officer	Tier III						
COO and Chief Admin. Officer, Chief Admin.	Tier II				7@Tier II		
Chief of Communications, Chief of Marketing, VP & Chief Marketing & Brand Experience Officer			2@Tier II			Tier III	
Chief Clinical Officer					Tier II		
Chief Contact Officer					Tier II		
VP Chief Data Officer						Tier III	
CEO/President Health Sys/President		Tier I	Tier I		Tier I	Tier I	
CEO, El Centro (UCSD) & President & CEO Sonoma Valley Hospital (UCSF)					Tier II	Tier III	
Chief Experience Officer/Assoc. Chief Experience Officer-Sr. Dir Patient Navigation Hub	Tier III				Tier II		
CFO/SVP-CFO/VP CFO –SS, VP CFO CS, VP CFO PO, VP CFO HAN,VP CFO MC,&AS, CFO Faculty Practice Group/CFO UCLA HS	Tier II	Tier II	2@Tier II		Tier II	Tier II, 5@Tier III	
Chief HR Officer/SVP HR			Tier II		Tier II	Tier II	
CIO/SVP CIO	Tier II	Tier II	Tier II			Tier II	
CMO/VP CMO Cancer Svcs	Tier II					Tier III	
UCD=CNO & Patient Care Svcs. Officer Nursing Dir-Emergency Svcs, UCI=Chief Nursing Exec, UCLA=Chief Nurse Exec. CNO, VP Patient Care Svcs & UCSF=Chief Nursing Exec.,VP CNO Children's Svc, VPCNO Adult Svc	1@Tier II, 1@Tier III	Tier II	Tier II			Tier II 2@Tier III	
COO, COO Ambulatory Care, COO HPN, UCSF=SVP COO, VP COO AS, VP COO CS, VP COO BC, VP COO HAN	Tier II	Tier II	Tier II		2@Tier II	2@Tier II, 3@Tier III	

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
VP Chief Pharmacy Executive						Tier III	
Chief, Quality & Patient Safety Officer					Tier II		
Chief Revenue Cycle Officer/VP Revenue Cycle					Tier II	Tier III	
Chief Strategy Officer/VP Strat & Business Dev./VP Chief Clinical Strat. Officer/Chief (Clinical) Strat. Officer, Exec Dir. Strat. & Bus. Dev.	Tier III	Tier II	Tier II		Tier II	2@Tier II	Tier II
Chief Transformation Officer							Tier II
Controller	Tier III						
Director Finance	Tier III						
Director Patient Care Services	3@Tier III						
Director Payer Strategies	Tier III						
Exec. Dir. Facilities, Planning & Dev.	Tier III						
Exec. Dir. Perioperative Nursing	Tier III						
Exec. Dir. Oncology Svcs.	Tier III						
Exec Dir. Hospital Admin. & Prof. Svcs.	2@Tier III						
Exec. VP Physician Services & Vice Dean - Clinical Affairs						Tier II	
Exec. VP UC Health - UCOP							Tier I
Sr. Assoc. Dean, Fin & Admin.			Tier II				
Sr. Assoc. Vice Chancellor and VP - UCSF Health Real Estate						Tier III	
Vice Chancellor IT and Data		Tier II					
SVP Children's Services						Tier II	
SVP –President Faculty Practices Officer						Tier II	
Vice Dean Finance & Administration and SOM						Tier II	
VP Administration & Chief of Staff to CEO						Tier II	
VP Chief Quality Officer						Tier III	
VP Children's Ambulatory Ops.						Tier III	
VP Clinical Systems						Tier II	
VP Faculty Practice Operations						Tier II	
VP Genetic and Genomic Svcs.						Tier II	

POSITION	UC Davis	UC Irvine	UCLA	UC Riverside	UC San Diego	UCSF	UC Health
VP IT Transformation Program						Tier III	
VP International Business Development						Tier III	
VP Major Capital Projects						Tier II	
VP New Hospital Operations						Tier III	
VP Medical Staff Governance						Tier III	
VP Operations						Tier II	
VP People Wellness AVC						Tier III	
VP Population Health & Accountable Care						Tier II	
VP Strategy Faculty Practice VP Strategy – Cancer Svcs VP Strategy & Business Dev., VP Health Plan Strategy, VP Strategic Development						5@Tier III	
VP Supply Chain & Support Svcs.						Tier II	
VP Talent Management						Tier II	
VP Women’s Health Svcs.						Tier III	

Table 2

Summary of FY 2022-23 CEMRP Eligible Participants by Tier
(As of July 2022)

SUMMARY				
Location	Eligible Positions			
	Tier I	Tier II	Tier III	Total
UCD	0	6	15	21
UCI	1	6	0	7
UCLA	1	10	0	11
UCR	0	0	0	0
UCSD	1	18	0	19
UCSF	1	21	30	52
UC Health	1	2	0	3
Total	5	63	45	113

NOTABLE OBSERVATIONS
<ul style="list-style-type: none"> - UCSF has more than twice as many Plan participants than any other location. - Only UCSF and UC Davis have Tier III participants. - UC Riverside has no participants for FY 2022-23.