

February 5, 2018

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Director, Concierge Medicine
0976

**Subject: Concierge Medicine Patient Refunds (Downtown & Encinitas)
Report 2018-20**

The final report for Concierge Medicine Patient Refunds (Downtown & Encinitas) 2018-20 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.

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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES

Concierge Medicine Patient Refunds (Downtown & Encinitas)
Report No. 2018-20
February 2018

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Concierge Medicine Patient Refunds (Downtown & Encinitas) as part of the approved audit plan for Fiscal Year 2017-18. The objective of our review was to assess whether processes for returning to patients the unused portion of terminated subscriptions resulted in accurate refunds to patients.

We concluded that processes for returning to patients the unused portion of terminated subscriptions resulted in accurate refunds to patients. Concierge Medicine Administration correctly paid patients their prorated refunds as per the patient agreement. Refunds were calculated for each patient who had requested cancelation of their agreement due to the closure of the Downtown and Encinitas clinics. In instances where a covered spouse or dependent requested a refund, the payment was made to the person who had made the concierge payment on their behalf.

During the review, we noted opportunities for improvement related to accounting transactions, documentation of procedures, and patient administrative tools. Management action plans to address these findings are summarized briefly below:

A. Patient Refunds Expensed

1. Concierge Medicine will work with the UCSDH Controller to determine whether refund amounts for prior years should be transferred to the appropriate income accounts.
2. Concierge Medicine has revised its practices to ensure that refunds are made from the revenue account to which they were originally posted.

B. Refund Procedures and Tools

1. Concierge Medicine will formalize refund processing procedures to ensure compliance with patient agreements and appropriate accounting treatment of future refunds
2. Concierge Medicine will train staff to serve as backups.
3. Concierge Medicine will consider transitioning to a tool that can better support business operations.

Observations and related Management 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 Concierge Medicine Patient Refunds (Downtown & Encinitas) as part of the approved audit plan for Fiscal Year 2017-18. This report summarizes the results of our review.

Concierge Medicine distinguishes itself in providing personal and unhurried primary care with top physicians in five-star amenities. Patients pay an up-front annual fee for Concierge Medicine services, which includes extended office visits and 24/7 physician access via phone, e-mail or videoconferencing. Patients are afforded same-day or next day appointments, same-day lab results, coordination of specialty or hospital care and house calls when needed. Direct medical care is provided under insurance and medical guidelines are on a fee-for-service basis in addition to the annual fee.

Patients sign a one year contract with Concierge Medicine at which time they pay for the services. Per this agreement, they are required to maintain Preferred Provider Organization (PPO) health insurance and agree to provide proof of insurance. They also agree to comply with all co-payments and deductibles as required by their insurance coverage.

Concierge locations vary in their approach to contracting. At the Encinitas location, unless the patient contract happens to start on February 1st, the first contract is prorated so that all subsequent contracts begin on that day. At the Downtown location, all contracts are for one year and all subsequent contracts follow on the anniversary date.

Regardless of location, all contracts include the provision that either party may terminate the agreement with notice. If the patient changes providers or moves, the remaining prorated balance of the contract is refunded less a \$250 processing fee. Should a patient become deceased the remaining prorated balance of their contract is refunded to their estate without any processing fees.

Common to all Concierge Medicine contracts is that they view patients from the perspective of the household in that each patient may designate a spouse and dependents. Although each spouse and dependent is also a patient, each is charged a lesser fee¹. Concierge Medicine contracts have a different price structure depending on the Concierge Medicine location where the patient entered into the agreement.

Concierge Medicine provided services at the Downtown (San Diego), Encinitas and La Jolla locations. Due to staffing changes, administration determined that it was necessary to close the Encinitas and the Downtown clinic locations. Patients receiving care at Encinitas clinic were notified via mail about the pending clinic closure on October 13 and 27, 2016. On November 9, 2016 notice was sent to patients via certified mail that facility would be closed on November 30, 2016. Patients had the option to continue to seek care for the remainder of their contract at the La Jolla Concierge Medicine. They could also elect to receive a prorated refund on the date of their choosing for the remaining term of their contract.

¹ From the Concierge Medicine Administration vernacular, each account features a patient, and possibly a spouse and/or dependents, though each person listed may be a “patient” in terms of being a recipient of healthcare services.

The pending Downtown clinic closure was brought to patients' attention by clinic staff and physicians starting the first two weeks of 2017. On February 13, 2017 patients were notified via certified mail about the planned clinic closure on April 14, 2017 and their option of continuing to receive care at the La Jolla location. During March and April 2017, Concierge Medicine staff called patients who had not specified a choice. The Downtown Concierge Medicine clinic closed on April 15, 2017.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to assess whether processes for returning to patients the unused portion of terminated subscriptions resulted in accurate refunds to patients. In order to achieve our objective, we performed the following:

- Reviewed the Concierge Medicine Website, the Concierge Medicine Letter of Agreements for the Downtown and the Encinitas locations;
- Interviewed the Concierge Medicine Senior Administrative Analyst and Director of the Center of Occupational & Environmental Medicine, Concierge Medicine;
- Walked through the refund process documentation prepared by the Concierge Medicine administrator;
- On a sampling basis:
 - Tested the administrative process by which patients' refund requests were validated and documented as it was relayed to Concierge Medicine Administration;
 - Recalculated patient refund balances; and
 - Validated that refunds calculated matched those on the refund request file and index ledgers.
- Traced a journal entry which records the Concierge Medicine patient contract payment in order to propose a correcting entry;
- Evaluated that refunds were paid only to those patients who had paid for Concierge Medicine services;
- Verified that all patients on Concierge Medicine Administration's requesting refunds list featured unique patients for each location and that all requests were by patients who had appeared on the master patient file;
- Traced all refund payments for the period of FY2017 to the master file to validate that payments were to either valid patients, patients' surviving family or to executors of their estate; and
- Validated that each patient having requested a refund did receive their money even if not paid directly to them, but to the person who had paid concierge fees on their behalf.

IV. CONCLUSION

Based on our review, we concluded that processes for returning to patients the unused portion of terminated subscriptions resulted in accurate refunds to patients. Concierge Medicine Administration correctly paid patients their prorated refunds as per the patient agreement. Refunds were calculated for each patient who had requested cancelation of their agreement due to the closure of the Downtown and Encinitas clinics. In instances where a covered spouse or dependent requested a refund, the payment was made to the person who had made the concierge payment on their behalf.

During the review, we noted opportunities for improvement related to accounting transactions, documentation of procedures, and patient administrative tools. These opportunities are discussed in the balance of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Patient Refunds Expensed
Patient refunds were charged to patient care expense.	
Risk Statement/Effect	
Charging refund payments as expenses resulted in overstated revenues and expenses.	
Management Action Plans	
A.1	Concierge Medicine will work with the UCSDH Controller to determine whether refund amounts for prior years should be transferred to the appropriate income accounts.
A.2	Concierge Medicine has revised its practices to ensure that refunds are made from the revenue account to which they were originally posted.

A. Patient Refunds Expensed – Detailed Discussion

Transactions to refund a customer any portion of their money should involve a reversal of the initial entry which recognized the sale. It is only the combination of the two entries, the initial sale and the partial refund, that shows the net value of the economic exchange. If instead the refund is coded to an expense account, then revenues remain at their inflated value and expenses are also overstated.

The expensing of patient refunds came about as a result of unintended consequences. The present Concierge Medicine administrator came into his position without any written procedures for how to process a patient refund. Concierge Medicine is unique because one aspect of its revenue cycle – the annual subscription fees – is not shared with any other department. While physician groups and medical centers charge on a fee-for-service basis, campus departments manage research awards via fund accounting and fund managers, Concierge Medicine charges patients an annual fee on a pre-paid subscription basis. Any refunds should be a partial reversal of the initial entry.

In order to affect refund payments, Concierge Medicine administrator used MyPayments, a tool overseen by Campus Disbursements department developed for campus and medical center departments to process small value vendor payments. Despite the Concierge Medicine administrator selecting “DUES, FEES, LICENSES, PERMITS, PREMIUMS, REFUNDS – REFUNDS” as transaction description within the MyPayments tool, all refunds were charged account 630280 – Patient Care, an expense account.

The error appears to have been the result of lack of documented procedures (see B. below). In addition, it does not appear that the process was tested to be sure it resulted in that appropriate accounting outcome at the time which Concierge Medicine was established, or when MyPayments was first considered for processing refunds.

The table below illustrates the amounts for all refunds (not just those associated with clinic closures) charged to each locations specific index during FY 2017².

Index	Index Title	Payments	Refunds
MSCYP2L	PRI CARE CONCIERGE LJ	4	7,646.67
MSCYPD0	MED GRP CONCIERGE DOWNTOWN DEFAULT	60	52,083.23
MSCYPE0	MED GRP CONCIERGE ENCINITAS DEFAULT	104	37,688.16
MSCYPLO	MED GRP CONCIERGE LAJOLLA DEFAULT	18	36,473.46
	Total	186	133,891.52

For the reasons outlined above, the balances scheduled above should be moved from expense to the appropriate income account. Processes for future refunds should be considered. The MyPayments tool can only process payments coded to expense accounts, irrespective of any refund designation. A subsequent transfer from expenditure to income account would be needed. The UCSDH Controller can provide guidance to Concierge Medicine on processes for future refunds.

B. Refund Procedures and Tools	
Procedures for processing patients’ refunds were not documented, and tools used to manage the patient administrative operations of patient accounts had limitations which could impact business processes.	
Risk Statement/Effect	
Lack of written procedures increases the risk of inconsistency and errors in processes. The exclusive use of spreadsheets to manage business operations may not be scalable to meet long term needs.	
Management Action Plans	
B.1	Concierge Medicine will formalize refund processing procedures to ensure compliance with patient agreements and appropriate accounting treatment of future refunds.
B.2	Concierge Medicine will train staff to serve as backups.

² The costs incurred in each index are not necessarily the costs of refunds allocable to that respective location

B.3	Concierge Medicine will consider transitioning to a tool that can better support business operations.
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B. Refunds Procedures and Tools – Detailed Discussion

Procedures – Documentation of business procedures and controls is a best practice, and assists in ensuring effective operations. In addition, documented procedures can serve as the basis for training staff to serve in a back-up role in the event the Concierge Medicine analyst is unavailable. We noted that while some documentation of refund processes was created for the purpose of this review, formalized procedures were not in place.

Written procedures can also reinforce the need for adherence to contract terms. For example, we noted that patients seeking refunds due to clinic closures typically did not submit a written request which is a requirement of their contract. Instead, a comment or phone call to the clinic would be sufficient for Concierge Medicine administration to post a certified letter confirming the patient's wishes. The only notice that Concierge Medicine administration had in writing regarding the patients request for a refund was the returned certified mail receipt. Written procedures which describe processes to obtain notification could ensure better compliance with contract terms.

Tools – We also noted that Concierge Medicine's Senior Administration Analyst performed all applicable business processes through the use of spreadsheets. Concierge Medicine Administration keeps patient account information in one master spreadsheet which contains 23 separate data fields per patient, one of which is a "note" field where each interaction with the patient is recorded. Separate spreadsheets were developed for patients at Downtown and Encinitas locations who sought refunds. There is inherent difficulty in navigating so many fields for a particular patient. Effectively adding to and editing large text fields in a spreadsheet is unwieldy and susceptible to error. In addition, MS Excel character limits in each cell³ which may in the future make this solution unusable for patient management purposes.

Using spreadsheets for patient account administration is also labor intensive and carries an increased risk of error. Though refund seeking patients were correctly paid, in some cases data from separate spreadsheets of patients seeking refunds was not updated back to the master patient spreadsheet. This increased risk that patients could have sought Concierge services after being issued a refund, or been sent renewal invoices in error. We noted one instance where an entry was incorrect on the refund list for a patient who had not requested one (this refund was not paid).

Another aspect of using spreadsheets is the difficulty in relating patient records to each other. For example, each patient may specify a spouse and any dependents. Documenting such relationships on a spread sheet is cumbersome.

A relational database practice management tool or account management software could improve accuracy and future reliability of patient administrative tasks. A tool built around the business process aspects of patient record management would provide scalability, enhanced accuracy and clear processes which could be formalized.

³ MS Excel will allow users to enter 32,767 characters in each cell, but it will only display the first 1,024.