

November 8, 2011

TONY M. PEREZ
Assistant Vice Chancellor, Health Sciences Affairs
0602

**Subject: UCSD/RCHSD Affiliation Agreements Review
Audit Project 2011-25**

The final audit report for the UCSD/RCHSD Affiliation Agreements Review, Project 2011-25, is attached. We would like to thank all UCSD and RCHSD personnel who participated in the audit for their cooperation and assistance.

Because we were able to reach agreement regarding corrective actions to be taken 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. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

Stephanie Burke
Assistant Vice Chancellor
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
San Diego

**UCSD/RCHSD Affiliation Agreements Review
November 2011**

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Project Number: 2011-25

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Audit & Management Advisory Services Project 2011-25*

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of UCSD/Rady Children's Hospital San Diego (RCHSD) Affiliation Agreements financial management processes as part of the approved audit plan for Fiscal Year 2010-11. This report summarizes the results of our review.

Affiliation Summary

In August 2001, the Joint Powers Affiliation Agreement between the Regents of the University of California (UC) and Children's Hospital and Health Center of San Diego, now referred to as RCHSD, became effective. The primary intent of the agreement was to combine UCSD Health System (UCSDHS) and RCHSD physicians, staff, hospitals and clinics into one virtual healthcare program to provide services to children in the greater San Diego area. When all components of the agreement were implemented, RCHSD became the primary service location for the majority of children's healthcare services formerly provided in UCSDHS facilities.

At that time, UC also entered into a related affiliation agreement with the Children's Specialists of San Diego, a Medical Group, Inc. (CSSD) to coordinate professional medical services, and the billing for those services, on behalf of UCSD Department of Pediatrics specialists, and RCHSD physicians.

In September 2009, UCSD entered into five new Agreements with RCHSD and CSSD which created the Rady Children's Specialists Medical Foundation (Medical Foundation), to build upon the 2001 affiliation of Pediatric programs. In accordance with the new Agreements, faculty appointments were offered to, and accepted by, approximately 120 CSSD physicians (affiliated physicians). The Agreements specified the details for reimbursement of certain affiliated physician compensation expenses and other administrative support.

The following five Agreements became effective on September 1, 2009:

- ***Professional Services Agreement (PSA)***: This agreement was executed between RCHSD and CSSD, and contains terms related to the governance and structure of the Medical Foundation, the responsibilities of the Medical Foundation and CSSD, and physician compensation.
- ***Administrative and Third Party Services Agreement (ASA)***: This agreement was executed between RCHSD and CSSD, and contains terms regarding CSSD performing certain physician administrative services, such as Hospitalist services, Medical Director services and on-call coverage at RCHSD.
- ***Staffing Agreement between CSSD and UCSD***: This agreement describes the expected delivery of physician related services, and the related terms of

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compensation and employment of CSSD physicians by UCSD. Selected Agreement terms are similar to those included in the PSA.

- ***Agreement between RCHSD and UCSD***: This agreement describes the financial support RCHSD is providing to UCSD through Dean's Office and Department taxation and funds flow; the physician recruitment process; and UCSD employment, faculty performance obligations, and research integration.
- ***The Joint Compliance, Risk Management and Common Interest Defense Agreement (JCRM)***: This Agreement, executed between RCHSD, CSSD and UCSD, describes the steps for managing joint compliance risk for the affiliated parties by establishing Joint Compliance and Joint Risk Management Committees.

The relationships between the affiliated parties through the Agreements are depicted in ***Exhibit A***.

In addition to the Agreements referenced above, individual Memoranda of Understandings (MOUs) between UCSD Departments and RCHSD have been established to provide the terms for the provision of medical services to RCHSD by UCSD Fellows¹, and reimbursement for those services. MOUs have been established for Fellows from the UCSD School of Medicine (SOM) Departments of Emergency Medicine, Pediatric Dermatology and Surgery.

Board of Governance and Operations Committee

A Board of Governance (BOG) has been established as required by the *Professional Services Agreement (PSA)*, as well as an Operations Sub-Committee. The BOG oversees Medical Foundation operations, and approves the Physician Recruitment Plan and budget; prepared by the Operations Sub-Committee working under the general direction of the BOG. The voting members for the BOG include the RCHSD Chief Operating Officer (COO), the RCHSD Chief Financial Officer (CFO), the Medical Foundation CFO, the Medical Foundation Operations Director, the UCSD Pediatrics Administrative Vice Chair, and the UCSD Dean of Children's Services.

For Fiscal Year 2010/11, the Physician Compensation Planning Budget (CSSD Budget), drafted by an external consultant, was used as the basis for establishing affiliated physician salaries at UCSD. The CSSD Budget included the budgeted salaries and the RCHSD clinical and total Full Time Equivalent (FTE) percentages² for each affiliated physician. The UCSD Pediatrics, Surgery, Neurosciences, Pathology, Orthopedics and Ophthalmology Departments had physicians that provided services to RCHSD under the terms of the Affiliation Agreements.

¹ The term Fellow refers to a physician who is completing a medical fellowship in a specialized field of Medicine.

² RCHSD FTE percentages equate to the level of effort spent on clinical and administrative activities.

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Financial Funds Flow Process

The Affiliation Agreements provided for the payment of the following specific expenses associated with physician clinical services:

- Salary and Benefits
- General and Professional Liability Insurance
- Travel, Meeting and Dues (TMD) Allowance
- Other recruitment and administrative support expenses including UCSD Dean’s Tax, and;
- Fellows Support

The UCSD Affiliation Manager (Affiliation Manager) was primarily responsible for ensuring that UCSD received funds from the Medical Foundation to cover physician salaries and benefits, and to obtain reimbursement of other related expenses. The only invoices not prepared by the Affiliation Manager were associated with individual MOUs for services provided to RCHSD by Fellows, and the TMD allowance. The UCSD Department that employed each Fellow was responsible for preparing a separate invoice for the salary and benefits associated with those services. TMD allowance expenses were calculated and reimbursed to UCSD by CSSD based on the annual budget for each physician.

<i>Expense(s)</i>	<i>Invoice Prepared by:</i>	<i>Invoice Submitted to:</i>	<i>Planned Frequency</i>
Salary and Benefits (including “Z” incentive salary payments)	Affiliation Manager with CSSD Support	CSSD	Monthly
General Liability	Affiliation Manager	Medical Foundation	Monthly
Professional Liability	Affiliation Manager	Medical Foundation	Quarterly
TMD Allowance	CSSD and sent to Affiliation Manager for invoicing	CSSD	Quarterly
Dean’s Tax	Affiliation Manager	RCHSD	Monthly
Fellows Support	UCSD Departments	RCHSD	Monthly

In addition to salary and benefits, some physicians may also earn incentive payments, referred to as “Z” payments, which are calculated based on the Work Relative Value Units (WRVU³) generated. CSSD calculated “Z” payments, and forwarded details to the Affiliation Manager for distribution to either the faculty member or the faculty member’s division. Physicians and/or divisions can elect to allocate all or a portion of “Z” payments earned to a physician discretionary fund (Individual Discretionary Fund

³ Medicare pays physicians for services based on the submission of a claim using one or more specific Current Procedural Terminology (CPT) codes. Each CPT code has a relative value unit (RVU) assigned to it, which, when multiplied by the conversion factor, and a geographical adjustment, creates the compensation level for a particular service.

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Augmentation (IDFA)) or to the Division (Divisional Discretionary Funds (DDF)). A flowchart describing “Z” payments, IDFA and DDF allocations is included as ***Exhibit B***.

The Agreements also provide for an annual payment of a maximum of \$3,000 for an Assistant Professor and \$6,000 for an Associate Professor (or above) to reimburse physicians for expenses associated with travel, meetings, and dues (TMD). CSSD calculated each physician’s TMD allocation based on the physician’s academic title and FTE percentage. In practice, the full annual allocation was provided to each physician without requiring documentation to support actual expenses incurred.

Exhibit 7 of the *Agreement between RCHSD and UCSD* specifies payment of \$5.4M (for the 12 months from September 2010) in Dean’s Tax by RCHSD to UCSD for the support of physician pre-employment expenses; and administrative and research compliance expenses. The provision for Dean’s tax payments in the 2009 Agreements was based on certain assumptions associated with the number of CSSD physicians who became UCSD faculty members, and the number of FTE affiliated physicians who staffed the Medical Foundation. The monthly Dean’s Tax payment amount was reduced to \$4.6M in March 2011 (retroactive to September 1, 2010) when the actual number of CSSD physicians that became UCSD faculty members was verified.

UCSD records affiliated physician expenses in the campus Integrated Financial Information System (IFIS) in specific “affiliation invoice indexes” within Fund 60106A. Indexes have also been established to record the physician discretionary (TMD) expenses, DDF expenses and expenses associated with Fellows Support services to RCHSD.

In December 2010, the UCSD Affiliation Manager developed an Access database to facilitate the affiliation invoice preparation process. Data queries were developed to extract physician salary, benefit and general liability expense detail from each affiliation index. Payments received were reconciled to invoices and distributed to affiliation invoice indexes by the Affiliation Manager. The invoicing and funds flow process for these expenses is summarized in ***Exhibit C***.

II. Audit Objectives, Scope, and Procedures

The objectives of our review were to determine whether an appropriate infrastructure has been established to facilitate the timely and accurate completion of Affiliation Agreement financial transactions; and to verify that UCSD, RCHSD, CSSD, and the Medical Foundation receive the information needed to effectively manage the overall funds flow. The scope of this review included Agreements, documentation, and financial processes for the period from September 2009 to June 2011.

We completed the following audit procedures to achieve the project objectives:

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- Obtained 2009 Affiliation Agreements, Amendments and MOUs from the UCSD Affiliation Manager and other SOM Department personnel;
- Reviewed and summarized the financial and operational terms in the 2009 Affiliation Agreements (***Exhibit A***);
- Met with the Assistant Vice Chancellor, Health Sciences, UCSD Affiliation Manager, and the RCHSD Chief Operations Officer to discuss areas of audit focus;
- Discussed financial processes with the following personnel:
 - ✓ UCSD Affiliation Manager;
 - ✓ Department of Pediatrics Administrative Vice Chair;
 - ✓ Department of Pediatrics Assistant DBO;
 - ✓ Department of Pediatrics Finance Manager;
 - ✓ Department of Pediatrics Senior Affiliation Analyst;
 - ✓ Department of Neurosciences Assistant Business Officer;
 - ✓ Department of Surgery Administrative Vice Chair;
 - ✓ CSSD Operations Management Analyst;
 - ✓ CSSD Business Analyst;
 - ✓ Medical Foundation Chief Financial Officer (CFO) and;
 - ✓ Medical Foundation Operations Director
- Prepared a flowchart depicting the current funds flow process for Salaries, Benefits and General Liability (***Exhibit B***); current IDFA/DDF and Z payment funds flow process (***Exhibit C***) and proposed funds flow process (***Exhibit D***);
- Analyzed Affiliation fund (60106A) indexes and expenses for reasonableness;
- Evaluated deficit balances in Fund 60106A, and discussed issues with the respective Department Business Officer (DBO);
- Analyzed invoices for Fellows Support, and discussed the details with respective Department staff responsible for billing;
- Analyzed invoicing and payment of affiliation funds;
- Reviewed IDFA and DDF monitoring processes and CSSD TMD calculations;
- Selected a judgmental sample of 11 physicians for review of vacation leave reporting and recording;

Because Affiliation Agreement terms associated with clinical research and compliance were evaluated in a separate project: *Rady Children's Hospital, San Diego Research Compliance Review*, AMAS Project 2011-26, those topics were excluded from the scope of this review. In addition, we did not complete a detailed analysis of the financial accounts associated with the 2001 Joint Powers Affiliation Agreements.

III. Conclusion

The Affiliation Agreements provide a construct for a financial funds flow between the affiliated entities that ensures physicians receive accurate salary and other benefit payments; and that RCHSD receives the physician services needed to support its clinical

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mission. We concluded that although an infrastructure was established to implement the financial terms included in the Agreements, improvements to current Affiliation invoicing and payment practices would help to minimize reimbursement delays and more effectively use staff resources.

AMAS' analysis of expense reimbursement trends identified delays in UCSD invoice submission, and RCHSD/CSSD/Medical Foundation expense reimbursements. Because UCSD prepared invoices based on actual rather than budgeted expenses, Medical Foundation and CSSD personnel responsible for identifying and resolving budget variances were required to validate the accuracy of the expenses through invoice audits, which ultimately resulted in payment delays. UCSD Affiliation accounts were already in deficit when invoices were submitted, so any further payment delays prolonged the length of time that deficits remained in UCSD financial accounts.

Revising the current process to invoice based on budgeted expenses, with a quarterly reconciliation of actual to budgeted expenses by all affiliated entities would improve the timeliness of the invoice preparation and remittance processes, and may require less staff time overall. The proposed billing structure is described in ***Exhibit D***.

The review also identified instances of expenses being inappropriately posted to affiliation indexes; incomplete vacation recording and certain financial terms not being fully implemented.

Some significant improvements have been made to manage the financial aspects of the Affiliation Agreements. One example is the implementation of the Access database by the UCSD Affiliation Manager which has facilitated the UCSD invoice preparation process. Steps have also been taken to establish effective communication channels for all affiliated parties. In addition to the BOG and Operations Committee, a UCSD/CSSD/Medical Foundation Affiliation workgroup, chaired by the UCSD Affiliation Manager, was formed to provide a platform for discussing affiliation implementation restraints and identifying integrated solutions. This workgroup consists of the UCSD Department DBOs, the Medical Foundation CFO and Operations Director, and the CSSD Operations Management Analyst. The active participation and representation of management from UCSD Departments, the UCSD Dean's Office, CSSD and the Medical Foundation on these Committees and Work Groups reflects the commitment of the affiliated parties to effectively implement the terms of the Agreements.

Opportunities for process improvements are discussed in the remainder of this report.

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IV. Observations and Management Corrective Actions

A. Affiliation Funds Flow Processes

UCSD invoiced affiliated entities for physician expenses in arrears using actual rather than budgeted expenses. This practice, in combination with payment delays, created chronic UCSD fund deficits.

The 2009 Affiliation Agreements resulted in approximately 120 RCHSD affiliated physicians becoming UCSD faculty members. However, their clinical practice did not change from an operational perspective. These new UCSD faculty have continued to provide clinical and administrative services to RCHSD as defined in the PSA and ASA. The CSSD net professional fee revenues that fund UCSD faculty salaries are billed and collected by the RCHSD Physician Medical Group and CSSD, and must be transferred via the established funds flow procedures to UCSD to cover salary and benefits costs, and other expenses as defined in the Affiliation Agreements.

UCSD is responsible for paying faculty salary and benefits at the beginning of each month, and then submitting invoices to affiliated entities to obtain the reimbursement to cover those expenses. The current practice of invoicing affiliated entities for actual expenses after the expense has been incurred, resulted in a chronic deficit balance in the UCSD affiliation fund.

UCSD Affiliation Financial Status

As of June 2011, the UCSD fund established to manage affiliation expenses had a deficit balance of \$9.6M. AMAS' analysis of individual accounts revealed that the deficit was caused by affiliation expenditures that either needed to be invoiced or were awaiting reimbursement. As of June 20, 2011 UCSD had not received payment for the following RCHSD/CSSD/Medical Foundation invoiced expenses:

<i>Expense Category</i>	<i>Invoice Amounts Outstanding as of 6/20/11</i>	<i>Comments</i>
Physician Salaries	\$6,884,976	April and May 2011 invoices
Physician Benefits	\$1,188,975	April and May 2011 invoices
General Liability	\$258,880	FY2010/11 payment pending information on the correct UCSD remittance address
Professional Liability	\$1,252,251	FY2010/11 payment pending Medical Foundation receipt expense detail by physician
Dean's Tax	\$780,756	June 2011 invoice
Fellows Support	\$240,037	Various Fellow support expenses invoices, which include salary, benefit,

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<i>Expense Category</i>	<i>Invoice Amounts Outstanding as of 6/20/11</i>	<i>Comments</i>
		general liability and NGN charges for FY2010/11
Burnham Reimbursement	\$112,542	Physician coverage for period from September 2010 to March 2011.
UCSD Administrative Staff Expenses (UCSD Index PEDRSTF)	\$389,555	Reimbursement is pending until an Agreement/MOU between UCSD and RCHSD is developed
UCSD Medical Center – Newborn Nursery collections	\$181,309	Medical Foundation collections (net of billing fee) for period October 2010 to May 2011
UCSD Medical Center - Genetics Counselor Medi-Cal collections	\$16,159	Medical Foundation Medi-Cal collections (net of billing fee) for FY2010/11
Total	\$11,305,440	

As noted above, in some cases, UCSD reimbursement for expenses already paid is pending additional information and/or a formal agreement.

AMAS performed an analysis of Affiliation expenses for Fiscal Year 2010/11 to determine the cause of reimbursement delays. The analysis identified that, in a number of cases, UCSD was delayed in submitting invoices. However, we noted that, effective December 2010, invoices for salaries, benefits and general liability were submitted on more timely basis. At that time, the UCSD Affiliation Manager developed and began using an Access database to assist with extracting expense data directly from IFIS.

We also noted that affiliated entity expense reimbursements were delayed, which could be caused by incomplete or non-existing Agreements or Agreement terms, pending questions on specific charges or adjustments, and/or by the additional time required by the existing affiliated entity invoice review process.

UCSD prepares invoices to affiliated entities for expense reimbursement after expenses have been posted in UCSD systems and ledgers have been closed (generally the 1st week of the following month). Negative STIP⁴ is then applied to the resulting deficit balances. As of June 2011, the total negative STIP that had been charged to the affiliation fund was \$116,876⁵, which had accumulated for the period September 2009 to December 2010. Invoicing in arrears, in combination with the invoicing and reimbursement delays, created a significant

⁴ The Treasurer's Office at the UC Office of the President (UCOP) invests available university cash in short-term securities called the Short Term Investment Pool (STIP). The STIP calculation is based on average daily cash balances of individual funds. A fund with a negative cash balance incurs STIP charges or negative STIP.

⁵ The total negative STIP may include STIP that accrued under the 2001 Agreements (Org #414953)

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time gap between the date expenses were posted by UCSD, and expenses were reimbursed.

Proposed Affiliation Billing Process

To reduce the financial impact to UCSD associated with the Affiliation Agreement terms, expenses should be invoiced each month based on the annual expense budget, and reconciled with actual expenses on a quarterly basis. The CSSD budget should be the source used to obtain the expense estimates included on the monthly invoice. Invoices should be prepared and forwarded to the appropriate affiliated entities at the beginning of the every month, with an expectation that payment would be processed by month-end. This revised process would reduce or eliminate the reimbursement delays that cause chronic deficits.

Benefit, general liability and professional liability expenses could be estimated for each physician in a similar manner (based on prior fiscal year average expenses). Reconciliations of actual and budgeted (invoiced) expenses could be performed quarterly, and adjustments for variances included in future invoices.

TMD expenses could also be invoiced at the beginning of each month based on the budgeted FTE applied to each physician's yearly allocation to facilitate the availability of funds that may be applied to travel, meetings and other eligible expenses incurred by the physician. However, IDFA/DDF and "Z" payments should continue to be processed as described in *Exhibit B*. Compensation to physicians providing coverage (including Burnham, Newborn Nursery and Genetic Counselors) should also continue to be invoiced using actual expenses, which vary from month to month. The inclusion of UCSD employee numbers by affiliated entities on communication or expense remittances that reference physician expense reimbursements would also help expedite existing UCSD accounting processes.

The quarterly reconciliation process could be facilitated if a shared data repository, accessible by personnel from each affiliated entity, were developed. The expense data currently captured in the UCSD Affiliation Manager's Access database could be used by affiliated entities to complete budget to actual expense reconciliation. Other information that affiliated entity management could consider posting might include, but would not be limited to, approved physician FTE adjustment data, and actual Fellow support expenses.

Proposed Billing Process for Fellow Support Expenses

UCSD Departments are responsible for preparing invoices to support expense reimbursements for Fellows. As of May 2011, Pediatrics and Surgery had \$240K of unpaid of Fellow support expenses. Process efficiencies could be achieved if the UCSD Affiliation Manager were to coordinate monthly invoice preparation

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for those services based on the annual budget. Actual expenses could be posted to specific indexes and extracted by developing Access database queries.

We also noted that the MOUs and Amendments that address Fellow support do not specifically reference reimbursement for UCSD Next Generation Network (NGN) charges; and general liability and professional liability expenses incurred by these employees. Although these expenses are relatively insignificant when compared to total Fellow support expenses, a funding source needs to be defined for NGN expense reimbursement.

The implementation of an expense reimbursement model based on budget, with quarterly reconciliation would facilitate a more timely funds flow to UCSD.

Agreement Modifications

A portion of the outstanding expense reimbursements is associated with an invoice for \$389K relating to salary expenses of UCSD administrative staff. However, we were advised that the invoice has been suspended pending the development of an Agreement that references those expenses.

Management Corrective Actions:

1. The UCSD SOM Dean's Office will attempt to provide additional expense detail that will resolve payment delays for general and professional liability reimbursements. In the interim, invoices will be prepared based on budget.
2. The UCSD Affiliation Manager, in coordination with UCSD Department of Pediatrics management, is analyzing the total negative STIP charges that have accumulated in Fund 60106A to segregate the amounts associated with the 2001 and the 2009 Agreements. Applicable STIP charges will be re-allocated to Dean's Office funds.
3. Affiliation management will collaborate with CSSD and Foundation managements to implement invoicing based on budget for selected affiliation expenses to alleviate the financial impact to UCSD.
4. Department of Pediatrics management will work through the SOM Dean's Office to develop an agreement for the reimbursement of UCSD staff administrative expenses currently allocated to index PEDRSTF.

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5. CSSD administration will include the physician's UCSD employee identification number on all expense remittance documents or related communications to facilitate UCSD accounting processes.
6. SOM, Medical Foundation and RCHSD managements will ensure that future MOUs for Fellow support allow for the reimbursement of all associated expenses of providing such services.
7. Affiliation management will discuss developing a model for prorating the reimbursement of NGN charges based on the percent time spent at UCSD and RCHSD campuses.

B. Accounting for RCHSD FTE Changes

UCSD Department changes to RCHSD physician FTE budgets created budget variances that required reconciliation before UCSD payments were processed.

AMAS obtained the March 2011 salary reconciliation performed by CSSD for review. The reconciliation identified a number of discrepancies between the budgeted physician salary expense, and the actual salary expense included on the UCSD invoice. AMAS discussed a sample of the salary discrepancies with the Pediatrics Senior Analyst and identified the main causes of the variances noted were differences in FTE percentages for selected physicians in UCSD and CSSD records.

CSSD requests each Division Chief to verify physician FTE each month using the Division *FTE Allocation Form*, which includes the budgeted FTE for each physician. CSSD sends an FTE Allocation Change Form to the Division Chief if variances between budget and actual FTEs are identified on the completed Allocation Form. The FTE Allocation Change Form is signed by both the Division Chief and physician and submitted to CSSD for updating their FTE records (used in the reconciliation process) and future Division FTE Allocation Forms.

Because any variance between budgeted and actual FTE percentages impacts the level of services provided by the affiliated physicians to RCHSD, any change to FTE percentage devoted to RCHSD clinical or administrative activities should be pre-approved to ensure that unexpected salary budget variances do not occur. The Medical Foundation could act as the RCHSD liaison responsible for approving and monitoring physician FTE and notifying UCSD of change approvals. It also appears that the Divisional FTE Allocation form data may not necessarily reflect accurate FTE percentages for affiliated physicians.

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Management Corrective Action:

Departments will notify the Affiliation Manager, CSSD and the Foundation about all physician FTE/salary adjustments prospectively to ensure consistent, accurate and timely communication of such changes to all parties.

C. Executive Compensation

UCSD did not submit an invoice for reimbursement of the RCHSD and Medical Foundation's share of the Dean of Children's Clinical Services (DCS) compensation.

The *Agreement between RCHSD and UCSD* provides that RCHSD reimburse UCSD for one-third of the total compensation paid to the DCS as long as he also serves as the Executive Director of the Medical Foundation and the Medical Group President. The PSA states in part: "Medical Foundation shall pay Medical Group (CSSD) for one-sixth of the Executive Director's total compensation paid by UCSD, so long as the Executive Director is also the Medical Group President." The UCSD/CSSD Staffing Agreement states in part: "Medical Group shall pay to UCSD, each month, the amount it is paid by the Medical Foundation pursuant to the PSA for compensation of the Executive Director." Therefore, approximately 50% of the total DCS compensation paid by UCSD is reimbursable. AMAS noted that the UCSD Affiliation Manager had not invoiced for DCS salary expenses from September 2009 to June 2011, which was estimated to be \$527K for that period.

Management Corrective Action:

The UCSD Affiliation Manager has submitted an invoice to obtain reimbursement of the DCS salary expense in accordance with the Agreements.

D. Accounting for Vacation Usage

Vacation time was not appropriately recorded for selected physicians, which impacted the benefits balances invoiced.

AMAS selected a judgmental sample of 11 physicians and obtained copies of their timesheets for the period December 2010 through March 2011 to verify that vacation was accurately recorded in the UCSD payroll system. We observed that 10 of the 11 physicians' vacation time was not accurately posted by UCSD. Vacation time was not entered for nine of the 10 physicians' whereas the

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remaining (Pathology) physician's time was erroneously entered by the timekeeper.

AMAS was informed by the Medical Foundation Operations Director that, effective January 2011, the Medical Foundation timesheets became the official Payroll Time Record used by UCSD Departments to post physician vacation hours. Prior to this, different timesheets were collected by UCSD and the Medical Foundation, resulting in incorrect and inconsistent recording of vacation.

Management Corrective Actions:

1. The SOM Dean's Office has assumed responsibility for entering physician vacation hours for the Department of Pediatrics using the Medical Foundation scanned timesheets.
2. The Pathology timekeeper will enter corrected vacation time in July 2011 for the audit exception noted.
3. The Medical Foundation will forward copies of physician timesheets to UCSD Departments other than Pediatrics for vacation time entry.
4. The Affiliation Manager will coordinate with personnel in UCSD Departments to ensure that physician vacation time is entered into the UCSD timekeeping system using the Medical Foundation scanned timesheets.
5. UCSD will perform a quarterly reconciliation to verify that vacation time entered into the UCSD Payroll Personnel System is consistent with the vacation time recorded on the Medical Foundation scanned timesheets.

E. Incorrect Expense Allocation – Affiliation Accounts

Analysis of affiliation fund indexes identified unrelated expenses that need to be reallocated to an appropriate account.

There were 28 indexes for posting expenses included on the invoice to CSSD and the Medical Foundation for salary, benefit, NGN and general liability expenses. AMAS reviewed the expenses allocated to the 28 indexes for FY2010/11 to verify that all expenses were appropriate. We noted some expenses that were allocated to the index but were not included on the related invoices. The table below summarizes the expenses incurred under the Affiliation which were not invoiced:

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Index	Date	Description of Expense	Transaction Amount (\$)
PEDRNEO	9/30/10	Burnham Institute	\$11,334
PEDRNEO	1/21/11	Burnham Institute	18,625
PEDRNEO	3/15/11	Burnham Institute	18,625
PEDRPUL	10/30/10	Personnel Temp Services	3,880
PEDRPUL	11/27/10	Personnel Temp Services	2,658
PEDRPUL	12/25/10	Personnel Temp Services	2,285
PEDRPUL	1/22/11	Personnel Temp Services	2,432
PEDRPUL	2/19/11	Personnel Temp Services	1,462
PEDREME	3/31/11	ID Recharge	15
PEDRGEN	10/31/10	Pharm I.T.	195
SURCSFD	9/15/10	Accreditation Council	1,589
PTHDPSP	FY10/11	Salary, benefit, NGN and General liability expenses of an administrative staff	To be Determined
Total Expenses			\$63,100

These expenses should be transferred to indexes with corresponding budget allocations.

We also noted that a distribution totaling \$3,831,460 was made from Fund 60106, Organization #434617; index VHSCSFA, that had not been reversed. This index was used to post salary, benefits and general liability expense reimbursements. The Affiliation Manager distributed this expense based on estimated January 2010 CSSD salary expense reimbursement, but did not reverse the allocation after the actual CSSD reimbursement was processed. Because all transactions affected Fund 60106A, there was no overall financial impact.

AMAS observed that distributions to Department indexes exceeded RCHSD expense reimbursement by \$69,963 for Fiscal Year 2009-10 in the VHSCSFA index. This discrepancy appeared to be caused by erroneous distributions for certain employee salary, benefit and general liability expenses that were not included on the invoice to RCHSD. The Affiliation Manager identified the cause of the error and will make the appropriate corrections.

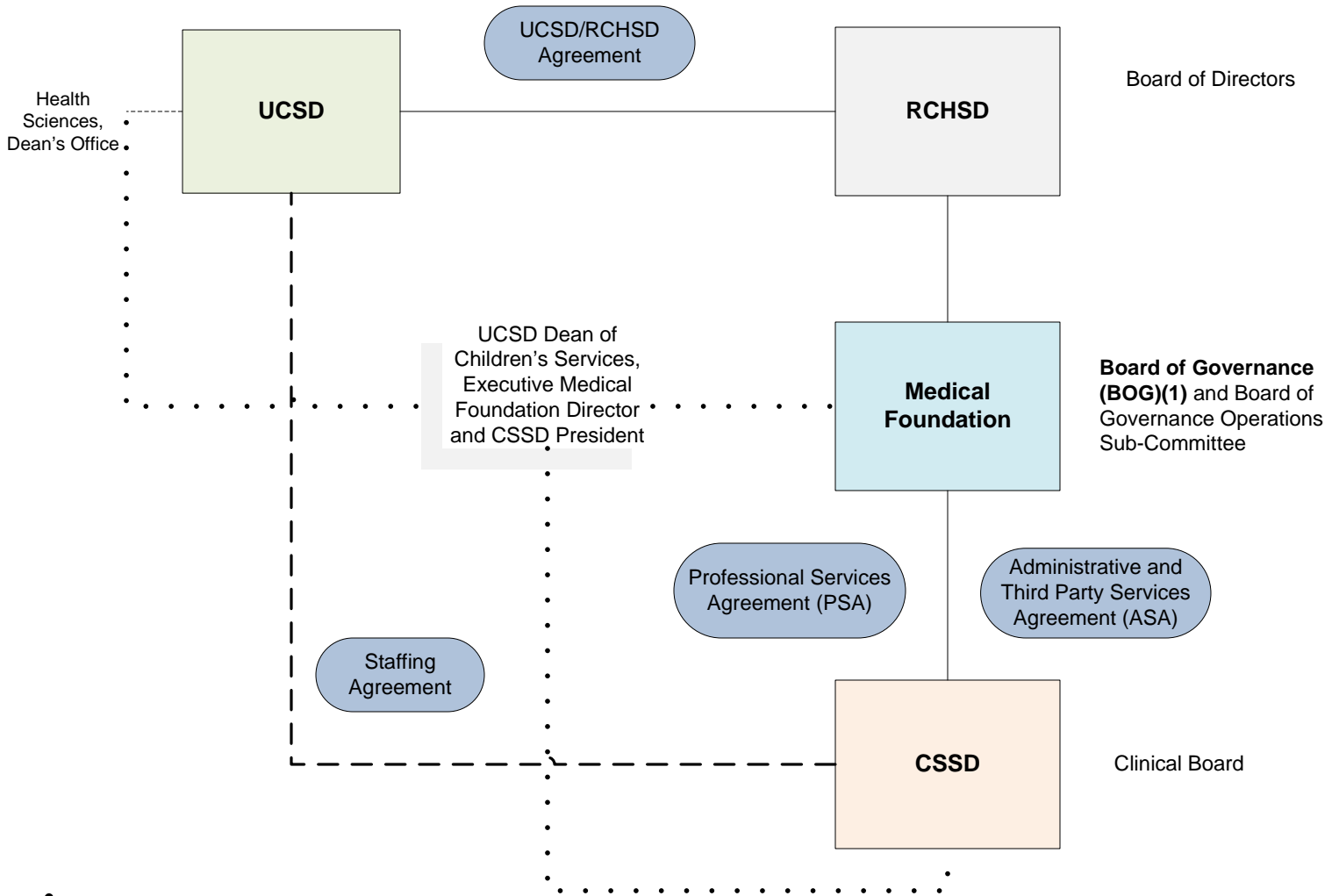
Management Corrective Actions:

1. The Affiliation Manager will process corrections to the affiliation index, as appropriate.
2. Department of Pediatrics management will transfer expenses to appropriate indexes.
3. Department of Surgery management will process expense transfers to transfer unrelated expenses to an appropriate index.

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4. Department of Pathology management has processed a transfer of the compensation expense for the administrative employee to an appropriate index.

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EXHIBIT A: UCSD/RCHSD Affiliation Model

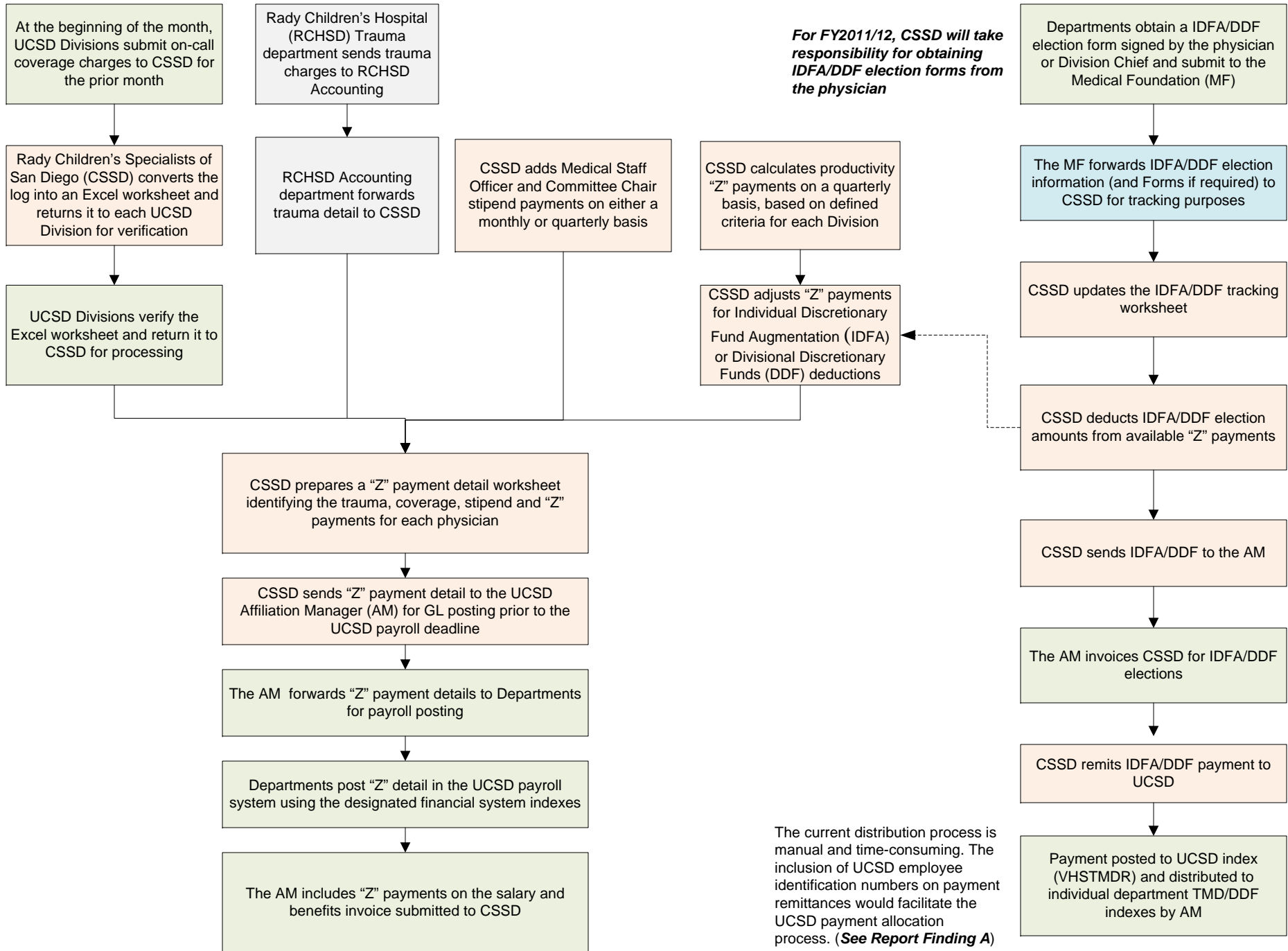


(1) BOG Membership:

- Medical Foundation Executive Director (Chair)
- RCHSD Chief Operations Officer
- RCHSD Chief Financial Officer
- Medical Foundation Chief Financial Officer
- Medical Foundation Operations Director
- UCSD Pediatrics Assistant Administrative Vice Chair

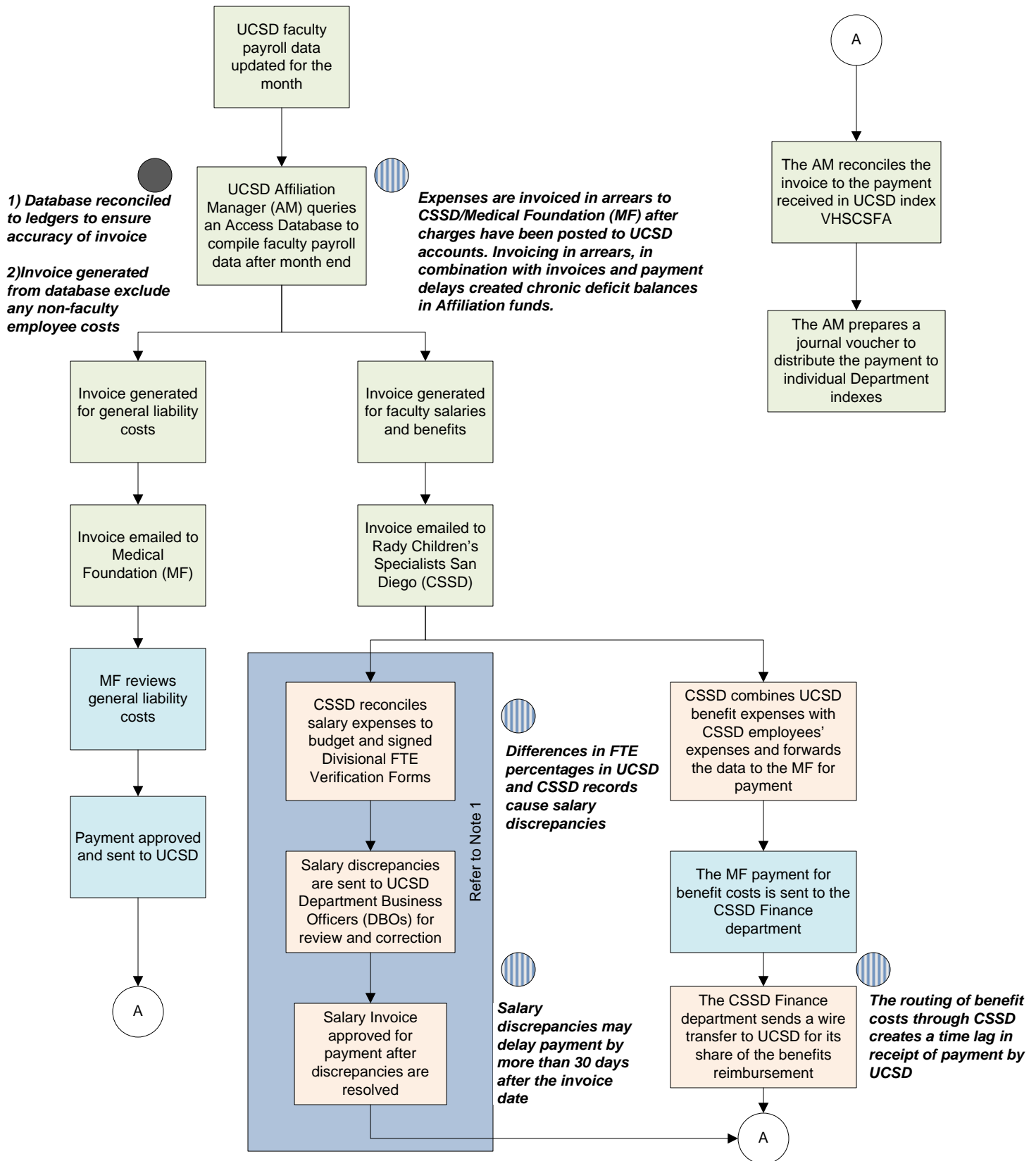
Source: Medical Foundation Operations Director

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EXHIBIT B: Current Incentive and Discretionary Funds Reimbursement Process



The current distribution process is manual and time-consuming. The inclusion of UCSD employee identification numbers on payment remittances would facilitate the UCSD payment allocation process. **(See Report Finding A)**

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EXHIBIT C: Current Salaries, Benefits, and General Liability Expense Reimbursement Process



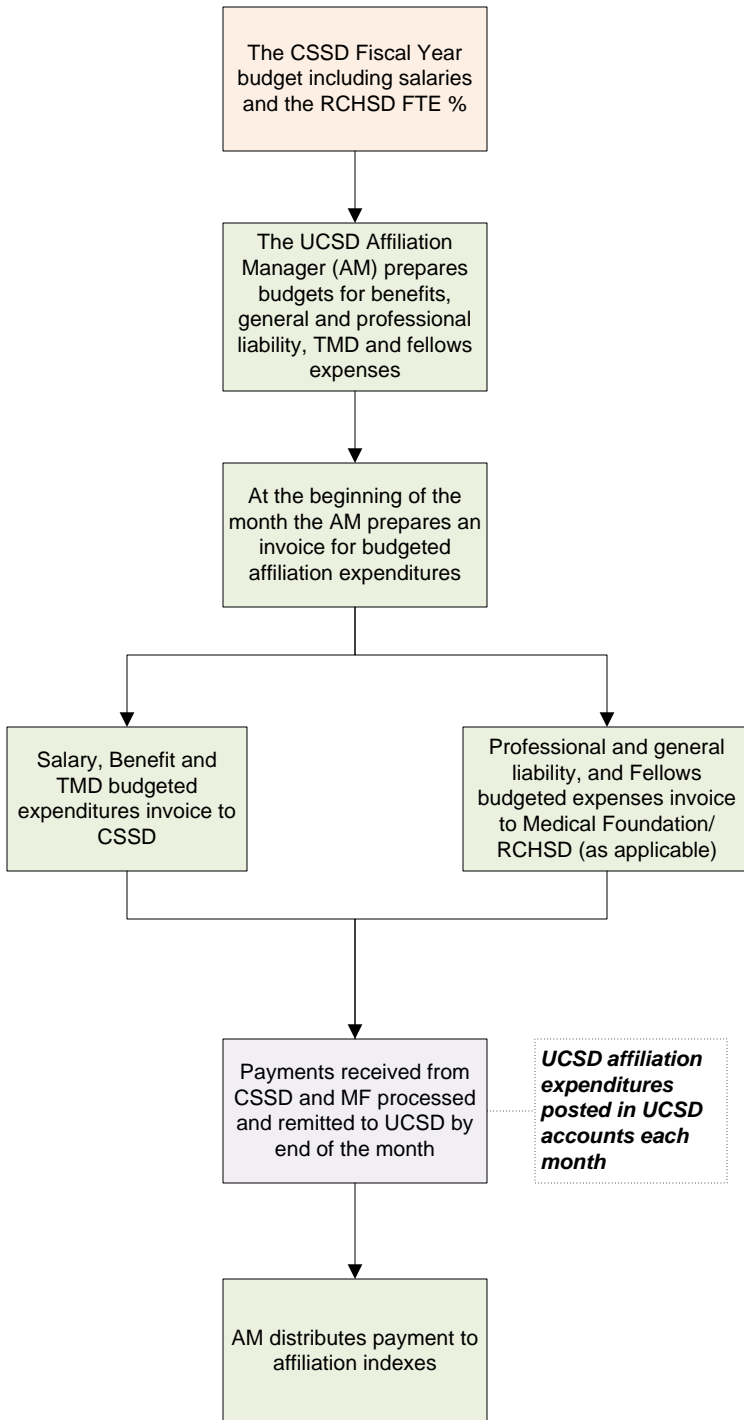
Note 1: The new CSD employee assigned to the reconciliation is retroactively completing reconciliations for each month in FY10/11 including months for which payment has been remitted to UCSD.

Control Strength

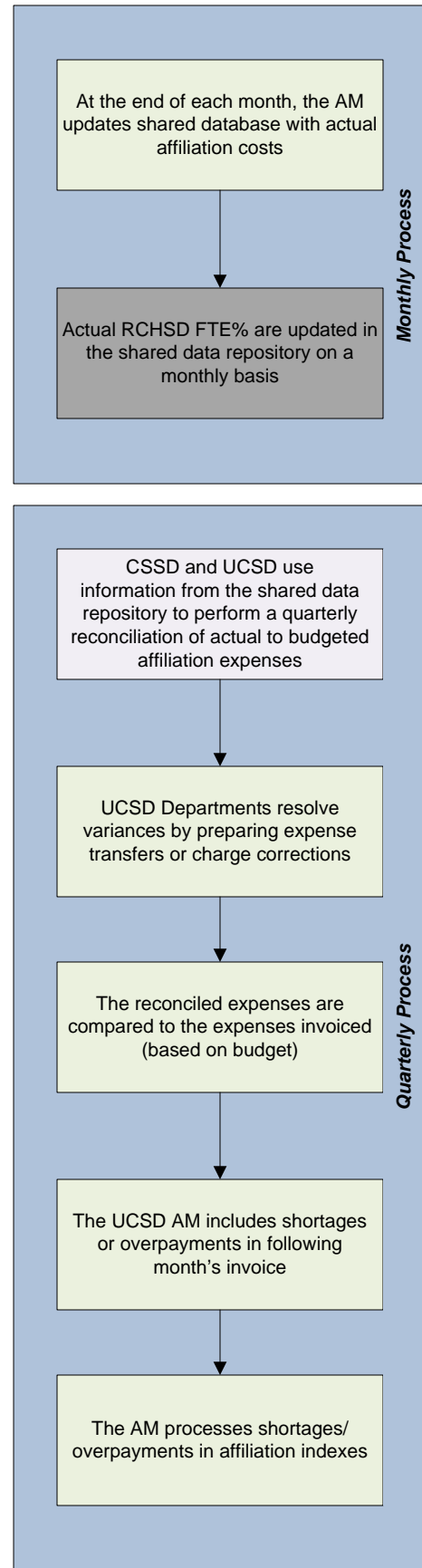
Control Weakness

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EXHIBIT D : Proposed Expense Invoicing and Reimbursement Processes

Proposed Invoicing Process



Proposed Reconciliation Process



Responsibility for updating FTE information needs to be determined