

July 24, 2017

DR. IGOR GRANT
Chair, Department of Psychiatry
0603

**Subject: *Psychiatry Clinical Services
 Report 2017-16***

The final audit report for Psychiatry Clinical Services 2017-16, 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

cc:	Michael Bloom	Steve Koh
	David Brenner	Ata Koryurek
	Judy Bruner	John Lohse
	Nancy Craney	Patty Maysent
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Psychiatry Clinical Services
Report No. 2017-16
July 2017

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a limited review of Department of Psychiatry Clinical Services as part of the approved audit plan for Fiscal Year (FY) 2016-17. The objective of our limited review was to evaluate whether internal controls are adequate to provide reasonable assurance that Psychiatry business processes with respect to clinical service agreements are effective, result in accurate financial reporting and compliance with University policy and the terms of the agreements. The scope of this review included a high level review of operations with focus on the San Diego County agreements for the Gifford Clinic, specifically contract #541745 The Bio-Psychosocial Rehabilitation Services (The Gifford Clinic) and contract #542227 UCSD Co-Occurring Disorders (COD) Program.

We concluded that internal controls for current processes are adequate to provide reasonable assurance that Psychiatry business processes with respect to clinical service agreements are effective, result in accurate financial reporting and are compliant with University policy and the terms of the agreements. However, the Department still experiences an annual financial loss related to these agreements.

In the past, it did not appear the Department leadership exercised the same stringent oversight of County agreements, including financial performance and adherence to terms and conditions that they do now. This contributed to contract disallowances by the County of \$986k for the two-year period Fiscal Year 2014-15 and Fiscal Year 2015-16. Management relayed that other factors contributed to these disallowances, including lack of timely communication by the County regarding changes in billing requirements, and County unwillingness to retroactively bill the State for services to recover a portion of the disallowed dollars. Gifford contract management has significantly improved since March 2016 with the addition of new clinic and administrative management to address current issues and monitor and manage follow-up.

Our detailed review confirmed that for the period September 1, 2016 through November 30, 2016, financial accounting and reporting was accurate and complete for County agreements #541745 and #542227. Based on our review, the Department projection of a combined loss for the two Gifford Clinic/COD Contracts for FY17 of \$240K appears to be a reasonable estimate. The shortfall from these agreements has historically been absorbed by the Department, and offset by the proceeds from other non-County programs. Because Gifford has contributed significantly to the teaching mission of the Department and provided training opportunity for resident physicians, the Department has in the past accepted the loss on these contracts. However, going forward this could be reconsidered to achieve greater financial viability independent of other Department programs.

In addition, we noted that Department-wide overdraft monitoring and resolution were not performed in strict conformance with campus policy which requires a documented deficit reduction plan. Management action plans to address these findings are summarized briefly below.

A. County Contract Management

1. The proposal for the new County Contract with new proposed contract terms and conditions developed and reviewed by the appropriate staff and management was submitted on March 15, 2017.

2. Management is currently working on aligning faculty efforts and reducing salary efforts to improve productivity and reduce cost.
3. For future contracts, management will ensure the appropriate personnel with firsthand knowledge continue to be involved in contract negotiation and continuous monitoring of contract agreement and terms. Management will carefully consider not executing contracts which are projected to result in a financial loss.
4. Management will ensure invoicing is being completed and submitted on time for the duration of these contracts.
5. Management will ensure that UCSD invoices do not include amounts that are not true financial expenditures for the duration of the agreements.
6. Gifford Clinic Management will develop a process for recording all staff including faculty time specifically charged to the County agreements for the duration of the agreements.

B. Overdraft Management

1. Management will align accounts to clear deficits at 2016-17 Fiscal Year-End, to the extent possible. For any remaining accounts in deficit, management will develop and document deficit reduction plans and obtain approval by Health Sciences leadership as appropriate per policy.

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 limited review of Department of Psychiatry Clinical Services as part of the approved audit plan for Fiscal Year (FY) 2016-17. This report summarizes the results of our review.

UC San Diego (UCSD) Department of Psychiatry (Department), founded in 1969, provides psychiatric and behavioral care to individuals throughout the Southern California region. The mission of the Department is to enhance mental wellness and better the lives of people with mental illness across the lifespan by/through:

- basic, clinical, and translational research;
- educating the next generation of scientists and clinicians; and
- providing state of the art care in partnership with our community.

To achieve these goals, clinicians are dedicated to helping patients and families affected by mental illness by providing advanced, evidence-based, personalized and compassionate mental health care. Psychiatry services include both clinic-based and hospital-based services for adults and seniors. Clinical programs span the continuity of care from acute and emergency treatment, in-patient hospitalization, partial and intensive outpatient programs to general outpatient services, and various specialized services (e.g., for Eating Disorders, Obsessive-Compulsive Disorder, Treatment Resistant Depression, Early Onset Psychosis, Geriatrics, Maternal Mental Health, Post-Traumatic Stress Disorder, Chronic Pain and Tele-Psychiatry).

Psychiatry supports a Continuing Medical Educational Program for residents and clinicians. The Department's clinically-based residency training program offers residents and fellows experience in inpatient, outpatient, consultation-liaison, geriatric, community, forensic, substance abuse and child and adolescent psychiatry. Psychiatry also participates in a Joint Doctoral Program (JDP) in Clinical Psychology with San Diego State University (SDSU), which is regularly rated as one of the best in the country, and has many other specialized training programs.

The Department's research is multidisciplinary, ranging from basic studies on the genetics and molecular mechanisms underlying neuropsychiatric disorders to clinical research on best practices in treatment, including innovative uses of cognitive behavioral therapy, telemedicine and novel pharmacological and psychotherapeutics. The Department is constantly trying to identify opportunities to increase funding and facilitate cross-campus and cross-institute collaborative projects.

In order to maintain community involvement Psychiatry maintains strong collaborations with:

- The Veteran's Administration (VA) San Diego Healthcare System
- Rady Children's Hospital San Diego
- San Diego Psychiatric Society
- Saint Vincent de Paul Village
- The Salk Institute for Biological Studies
- Scripps Research Institute
- Various agencies and programs of San Diego County (County)
- California state government (Division of Health Services and Department of Corrections)
- The United States Navy

An important part of the Department's clinical service is the Outpatient Services programs and clinics, several of which are funded by the County. The most significant County contract is for the operation of the Gifford Clinic. The services at this clinic are free of charge to those who are uninsured or receive publically funded insurance such as Medi-Cal. The clinic provides outpatient mental health care services to individuals with serious mental health disorders, including individuals with interacting substance use issues and other psychiatric challenges. There were four San Diego County Contracts at the time of our review, as summarized below:

Contract	UCSD Index	Name	Description	Dates	Initial Amount (whole term)
539255	PSTCCPF	Workforce Education and Training: Residency, Internship Programs; General Community and Child Community Psychiatry Fellowship	This project funds two distinct programs to train physicians to take leadership roles in Community Psychiatry. The first trains Psychiatry residents and the second trains child and adolescent psychiatry residents.	7/1/12 – 6/30/17	\$4,264,603
542227	PSTDD36 & PSTDUAL	Co-Occurring Disorders Program (COD - UCSD Gifford Clinic)	This contract is for a co-occurring disorders treatment program for substance abusing adults who are also experiencing complex co-occurring mental health problems and who have difficulty being successful in the traditional alcohol and drug or mental health programs.	9/1/12 – 6/30/18	\$4,124,358
541745	PST4273, PST4274 & PSTTAYS	Bio-Psychosocial Rehabilitation Services (UCSD Gifford Clinic)	This contract is the primary source of funding for the wellness recovery center at Gifford Clinic. The program provides psychiatric residency and internship training programs; outpatient mental health rehabilitation and recovery services, an urgent walk in component, case management; long-term vocational support for the seriously mentally ill (SMI) clients age 18 and older including those who may have a co-occurring substance abuse disorder.	9/1/12 – 6/30/18	\$11,492,431
552936	PSTCA45	Innovative Mobile Hoarding Intervention Program	This program's primary purpose is to increase quality of services and to develop improved outcomes for older adults with hoarding behaviors that affect their quality of life and well-being.	2/1/16 – 12/31/18	\$1,230,174

The Department manages each contract in one of the financial indexes indicated above. In addition, the Department uses index PST8314 as a clearing account for the County contracts and other Gifford Building expenses. This index is used to charge expenses that are related to the Gifford Clinic, County contracts, or general clinic and other expenses that are not a covered expense for the County. Some

expenses, such as utilities and administrative costs, are allocated to the appropriate contract on a semi-annual basis. Other expenses which are clinic related but not reimbursable per the contracts are subsidized by the Department. This index is cleared out by Department funding allocation at the end of each Fiscal Year.

On January 25, 2017, the County issued a new Request for Proposals (RFP) that will essentially combine the two current County Contracts #541745 and #542227 that operate Gifford Clinic. The Department submitted a response to the RFP on Wednesday March 15, 2017. Per the County RFP, a new agreement with the successful bidder is set to start July 1, 2017, with a budget of \$3,172,088 per year.

During the Fiscal Year ending June 30, 2016, Psychiatry's revenue from all sources; academic, clinical and research, totaled \$109,457,331 million and expenditures were \$108,307,449 per department financial reports. It is the second largest department in the School of Medicine, with approximately 900 employees and 150 salaried faculty.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our limited review was to evaluate whether internal controls are adequate to provide reasonable assurance that Psychiatry business processes with respect to clinical service agreements are effective, result in accurate financial reporting and compliance with University policy and the terms of the agreements. The scope of this review included a high level review of operations with focus on the San Diego County agreements for the Gifford Clinic, specifically contract #541745 The Bio-Psychosocial Rehabilitation Services (The Gifford Clinic) and contract #542227 UCSD Co-Occurring Disorders (COD) Program. Our audit focused on the current agreements, documentation and financial processes from Fiscal Year 2015-16 and Fiscal Year 2016-17 through November 2016. In order to achieve our objective, we performed the following:

- Reviewed Department organizational structure, and met with management and staff to gain an understanding of how service agreements including County contracts were managed and monitored;
- Obtained a listing of all service agreements from the Department and the UCSD School of Medicine (SOM) Business Contracting Office to ensure we had a complete set of information in order to analyze the financial structure of the department;
- Gained an understanding of internal financial control practices;
- Reviewed prior audit findings and management responses for external audits conducted by the County on its contracts with the Department;
- Obtained and reviewed 2015 and 2016 Agreements for the three primary county of San Diego contracts (#541745, #542227 and #539255);
- Interviewed the Department Director of Financial Affairs to review reports and details of the financial processes for clinical activity;
- Interviewed the Gifford Operations Director to review processes for management and monitoring of Gifford Operations County contracts;
- Interviewed the Gifford Operations Chief Financial Manager to review financial processes for administering the County agreements including, but not limited to financial reporting, invoicing, processing accruals and payments;

- Reviewed and analyzed financial reports for the two primary Gifford Clinic agreements #541745 and #542227, including invoices and payments and supporting documentation for the three month period of September 2016 through November 2016 to review in detail the expenditures and other activity in the following indexes:
 - PST4273, PST4274 and PSTTAYS, County Agreement #541745
 - PSTDUAL and PSTDD36 for #542227
 - PST8314 the clearing account index PST8314;
- Reconciled these financial indexes to the County invoices prepared and submitted by the Gifford Operations Financial Manager, reviewed clinic operations and supporting documentation for accuracy;
- Visited the Gifford Clinic and met with the Clinic Manager to gain an understanding of practices for management of agreement terms and scheduling;
- Interviewed Gifford Clinic staff and management involved in scheduling and timekeeping to understand time recording for personnel paid on County funds; and
- Reviewed and analyzed overdraft management reports, deficit balances and the process for managing, focusing on deficits over \$10,000 and three months old.

The scope of our review included the two primary Gifford Operations County agreements and their amendments and a high level review of processes for overall clinical service agreement management within the Department of Psychiatry. This review focused on general business processes and internal controls and did not include evaluation of compliance with federal and state regulations related to the provision of clinical care.

In FY18 AMAS plans a broader scope audit of the Department, the purpose of which will be to perform an overall assessment of Department business operations and administrative internal control environment for compliance with University policies and procedures, effectiveness of business unit operations, and accuracy of financial reporting.

IV. CONCLUSION

Based on our limited review, we concluded that internal controls for current processes are adequate to provide reasonable assurance that Psychiatry business processes with respect to clinical service agreements are effective, result in accurate financial reporting and are compliant with University policy and the terms of the agreements. We found that the current management structure of the Gifford clinic appears to be committed to ensuring that appropriate internal controls are in place, patient care and safety comes first and specialized training is provided to staff and faculty. However, the Department still experiences an annual financial loss related to these agreements.

In the past, it did not appear the Department leadership exercised the same stringent oversight of County agreements, including financial performance and adherence to terms and conditions that they do now. This contributed to contract disallowances by the County of \$986K for the two-year period Fiscal Year 2014-15 and Fiscal Year 2015-16. Management relayed that other factors contributed to these disallowances, including lack of timely communication by the County regarding changes in billing requirements, and County unwillingness to retroactively bill the State for services to recover a portion of the disallowed dollars. Gifford contract management has significantly improved since March 2016 with the addition of new clinic and administrative management to address current issues and monitor

and manage follow-up. Weekly clinic and monthly management meetings have been effective in facilitating communication between relevant staff and management.

Our detailed review confirmed that for the period September 1, 2016 through November 30, 2016, financial accounting and reporting was accurate and complete for County agreements #541745 and #542227. Based on our review, the Department projection of a combined loss for the two Gifford Clinic/COD Contracts for FY17 of \$240K appears to be a reasonable estimate. The shortfall from these agreements has historically been absorbed by the Department, and offset by the proceeds from other non-County programs (specifically the Eating Disorders Clinic). Because Gifford has contributed significantly to the teaching mission of the department and provided training opportunity for resident physicians, the Department has in the past accepted the loss on these contracts. However, going forward this could be reconsidered to achieve greater financial viability independent of other Department programs. In the future financial losses could be reduced through improved contract negotiation and management of productivity and spending.

In addition, we noted that Department-wide overdraft monitoring and resolution were not performed in strict conformance with campus policy which requires a documented deficit reduction plan.

Opportunities for improvement are discussed in further detail in the balance of this report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	County Contract Management
Weaknesses in prior leadership's financial and operational oversight of San Diego County contracts and oversight issues with the County resulted in disallowances and loss of revenue.	
Risk Statement/Effect	
In general, poor management oversight practices could lead to additional lost revenues, lost contracts and potentially have a reputational impact with current and potential outside agencies.	
Management Action Plans	
A.1	The proposal for the new County Contract with new proposed contract terms and conditions developed and reviewed by the appropriate staff and management was submitted on March 15, 2017.
A.2	Management is currently working on aligning faculty efforts and reducing salary efforts to improve productivity and reduce cost.
A.3	For future contracts, management will ensure the appropriate personnel with firsthand knowledge continue to be involved in contract negotiation and continuous monitoring of contract agreement and terms. Management will carefully consider not executing contracts which are projected to result in a financial loss.
A.4	Management will ensure invoicing is being completed and submitted on time for the duration of these contracts.

A.5	Management will ensure that UCSD invoices do not include amounts that are not true financial expenditures for the duration of the agreements.
A.6	Gifford Clinic Management will develop a process for recording all staff including faculty time specifically charged to the County agreements for the duration of the agreements.

A. County Contract Management – Detailed Discussion

The County contracts for the Gifford Clinic have been in place for approximately 40 years, with numerous renewals and amendments over the years. The current contracts for both #541745 and #542227 were effective September 1, 2012. In the past, UCSD oversight practices for financial and operational aspects of the agreements have not always ensured that contract terms were met, contributing to findings from external audits conducted by the County in Fiscal Years 2014-15 and Fiscal Year 2015-16 and culminating in significant financial disallowances. A Clinic Oversight Committee which served to review contract terms and conditions has not been consistently operational. Recent management changes have resulted in significantly improved oversight and compliance for the billing aspects of the agreements, however the Department still experiences an annual financial loss in the operation of the Gifford Clinic from prior negotiations. In addition, some contract terms and conditions were still not consistently met, such as time reporting and timely billing.

Historical Management of Agreements

We noted that past management concerns of the Gifford agreements related primarily to billing for clinical services, lack of budget increases for rising employee costs, and disagreement with the County over rent expenses. Management also relayed that County oversight practices had changed, and that communication from the County of required changes was not timely.

- Billing for Clinical Services – Recent financial disallowances resulted primarily from UCSD’s lack of adherence to County requirements for billing for clinical services provided to Medi-cal clients. The contract requires that UCSD bills the County and the County subsequently bills the State for these services. However, the County was not being reimbursed by the State because UCSD was not meeting the States specific documentation requirements. UCSD did not appear to have an appropriate Medicare billing system in place to bill for the Medicare patients. The County sent notices of potential disallowance to Gifford Clinic management, informing that they could not forward these bills to Medi-Cal and obtain reimbursement until corrections were made. UCSD failed to make the corrections on a timely basis or they were not made at all in some instances, which led the County to disallow \$761,645 in FY15 and \$224,355 in FY16. The error rate noted in audits conducted by the County at the time of the FY15 disallowance was approximately 60%.

This disallowance was absorbed by the Department, primarily covered by the funding available from other programs. It appeared the lack of compliance with billing requirements and County requests were due to a number of factors, including untimely implementation of State regulations and County billing requirements, use of a new electronic system by the County, and employee turnover. The Department indicated that, historically, communication from the County of the changing requirements and practices for auditing billing compliance was not timely. Also, it is unclear if the individuals signing off on contract renewals and amendments had the operational knowledge to identify potentially problematic terms. Management also

relayed that the County was not receptive to correcting billing and documentation issues which could have enabled them to retroactively bill the State for services to recover a portion of the disallowed dollars.

In addition, future funding was lost because sites are budgeted based on the past billing data, and UCSD had inaccurate billing data due to the disallowances. The County had planned to increase the budget for psychiatrist salaries by approximately \$152,387 in FY 15-16, but that was retracted by the County after these disallowances were reported. It appeared that this increase was retracted after UCSD Gifford Clinic was no longer in good standing with the County.

In 2016, management of Gifford Clinic was transitioned to a new Director, Clinical Manager, and Financial Manager, who have demonstrated a solid understanding of billing requirements and financial management of the agreements. More recent audits conducted by the County have indicated a significantly improved error rate (3% error rate as of November 2016), and no further disallowances are expected.

- Budget Restrictions and Rising Staff Costs – In addition to a flat budget since 2012, no salary increases were awarded and the costs to operate the Gifford Clinic including supervision of the Residents were increasing. After the disallowances, UCSD hired additional faculty for supervision of Residents, salaries were not fully covered for these Residents, Social Workers and other trainees, and no cost of living adjustments were made.
- Rent Expenses – In addition, the County has periodically questioned certain expenditures reported by UCSD or Gifford Clinic space. In the past, UCSD invoiced the County for rent of the Gifford building, although the Department did not have an actual expenditure basis for doing so. These amounts were questioned by the County in multiple prior audits, although there has not been a financial impact because UCSD expenditures for the Gifford Clinic were already above the total that the County was obligated to fund per the agreements. The Department discontinued charging a rent expense for Gifford to the County in 2016. Management should continue to refrain from charging this expense if it not actually incurred in order to prevent questionable costs.

Current Practices and Challenges

Since March 2016, with the addition of new management team members, alignment of activities, improvement of reconciliation of invoices and other internal control improvements, oversight for the Gifford Clinic agreements has significantly improved. A Profit and Loss Statement for this line of business is not produced by the Department, which could provide increased clarity in understanding financial status of these agreements. Instead financial status is tracked in a collection of financial spreadsheets. Our detailed review of these financial reports for the period September 1, 2016 through November 30, 2016, indicated that all costs associated with these agreements were being captured accurately and completely in the assigned indexes including the clearing account index. The Department projection of a loss for FY17 of \$240K appears to be a reasonable estimate. Invoicing was accurate, and UCSD was being fully reimbursed for reported allowable expenditures.

There are many factors that contribute to the annual financial loss for these agreements including, but not limited to:

- Productivity Losses – The County disallows costs of service above a certain determined productivity measurement, the State Maximum Allowable rate, which is based on units of service (visits), as specified in the original contract terms. The Gifford Clinic reports on number of visits per month. The disallowance is derived from the cumulative productivity matched to the cumulative expenses, and it can fluctuate month to month. We noted that contract #542227 for Alcohol and Drug Services (ADS) had a (\$28,757) loss due to this rate cap adjustment. Year-to-date through November 2016 the rate cap adjustment disallowance was (\$46,589). If the unit follows the same line of productivity, they are projected to lose approximately (\$130,000) by Fiscal Year end June 30, 2017 due to productivity alone.
- Operational Expenses which are not reimbursable – Certain administrative or other salary expenses were not allowable per the contract. These costs are charged to Index PST8314, the clearing account index for County agreements and other general Gifford building expenses. The three month period we reviewed had approximately \$57,485 (\$13,088 operations expenses and \$44,397 payroll expenses) in expenditures directly applicable to the operations of the Gifford clinic and the two county contracts reviewed, but were not chargeable because the expenditures were not allowed per the contract (e.g., administrative salaries, information technology service, participant incentives, meetings that included meals, UCOP tax assessment, and general overspending on supplies etc.).

Gifford Clinic Management is currently working to realign efforts and increase productivity, thus reducing the County rate cap adjustment disallowance, however, they are limited with the current contract that restricts them from fully changing their process unless a new contract is executed. The current contracts expire on June 30, 2017.

On January 25, 2017 the County sent out a request for proposals for a new contract that would combine the two old contracts (#541745 and #542227) for Behavioral Health Services Central Region Bio Psychosocial Rehabilitation Services and Countywide Co-Occurring Disorders Program. This gives UCSD Gifford Clinic Management an opportunity to submit a proposal for services and costs that are more reflective of true operating expenditures, and, if chosen as the successful bidder, to negotiate better terms that would result in a new and improved agreement with the County. Proposals were due March 15, 2017. Notice of intent to award will be published approximately around March-May 2017 and the new award is planned for execution July 1, 2017. We understand from the Department it is possible that the current contracts may be extended if the County process is not complete in this timeframe.

Contract Compliance – Time Reporting

In our review, we noted that faculty time records were not completed in accordance with the County regulations and terms of the contract. External audits performed by the County have noted in 2013 and again in the current audit of 2017 lack of compliance in this area.

According to section 8.1 in all County contracts, *“Contractor shall at all times perform its obligations hereunder in compliance with all applicable Federal, State, County, and local laws, rules and regulations, current and hereinafter enacted, including facility and professional licensing and/or certification laws and keep in effect any and all licenses, permits, notices and certificates as are required. Contractor shall further comply with all laws applicable to wages and hours of employment,*

occupational safety, and to fire safety, health and sanitation.” To satisfy this requirement the County requires a record of time worked on the prospective projects for each staff or faculty member paid by County funds, similar to effort reporting required by Federal contracts. This will provide them with reasonable assurance that time being charged is accurate, allowable and properly allocated.

The Department has not historically fulfilled this requirement because time and effort reporting for faculty is not typically performed in the normal course of business, unless Federal funds are involved¹. Lack of appropriate support and internal controls over faculty timesheets to ensure documentation of effort may result in future disallowances or loss of revenue. In addition, continued non-compliance with the terms of the agreement could impact potential future negotiations, should UCSD be the successful bidder on the current RFP, or the current contracts are extended.

Contract Compliance – Timeliness of Invoicing

We also noted that invoices to the County for UCSD services were not issued timely for contracts #541745 and #542227. Per the County agreements, *“Invoices are due 30 days after the end of the invoice month unless other due dates are required by specific funding sources.”* Review of the September 2016 through November 2016 invoices and payments showed that invoices were being sent 45 to 67 days after the end of the following month, resulting in payments that were two or more months behind the actual month of earning. Management confirmed that there were no separate agreements regarding the due date of the invoices, and indicated that the complexity of the expense reconciliation between UCSD systems and the County invoicing format delayed this process. The Department creates accruals and reverses them when the actual money is received to reflect the accounts receivable. However, current practices are not in compliance with terms of the agreements and delay reimbursement of University expenditures.

B.	Overdraft Management
Overdraft monitoring and resolution were not performed in strict conformance with campus policy. We noted \$6.3M in deficit accounts Department-wide for which a documented deficit reduction plan had not been completed.	
Risk Statement/Effect	
Ongoing unresolved financial deficits may be interpreted as poor stewardship and may jeopardize future funding.	
Management Action Plan	
B.1	Management will align accounts to clear deficits at 2016-17 Fiscal Year-End, to the extent possible. For any remaining accounts in deficit, management will develop and document deficit reduction plans and obtain approval by Health Sciences leadership as appropriate per policy.

¹ Federal funding was received for these contracts for some periods, however notices of federal funding are often received inconsistently from the County, or after the close of the applicable fiscal year. This precludes UCSD from establishing the financial account in a manner that enables effort reports to be generated automatically and fulfill other downstream reporting requirements. This issue has been previously raised by AMAS to the County on multiple occasions, and internally to Health Sciences management.

B. Overdraft Management – Detailed Discussion

Overdraft monitoring and resolution were not performed in strict conformance with campus policy. We noted that the Department did not have documented deficit reduction plans for any accounts in overdraft as of December 2016.

The UCSD Overdraft Policy in place at the time of our review for the period ending December 31, 2016, required that departments monitor financial balances and initiate corrective action in a timely manner to eliminate overdrafts for expenditures exceeding the allocation/budget. The policy assigned responsibility for financial management to the department administrators, and required that deficit balances exceeding \$10,000 or greater than 60 days in duration be documented in writing and be approved by the cognizant Vice Chancellor.

The UCSD Overdraft Policy was updated effective in February 2017. The new policy requires that overdrafts be routinely monitored at the level of the Department Chairs and Business Officers. In addition:

- For sponsored projects, a written action plan must be developed to eliminate the Overdraft when the Fund's cumulative expenses exceed the authorized funding from the sponsor for longer than 30 days. It is the responsibility of the Department Chair and Department Business Officer to ensure that an overdraft resolution plan is in place.
- For Funds other than sponsored projects' written action plans must be developed to eliminate Overdrafts larger than \$25,000 or five percent of the Fund's fiscal year budget, whichever is more. Action plans are submitted to the Department Chair/Designee and Vice Chancellor/Dean for review and approval. These overdrafts should be eliminated within six months of approval of the written plan. Any longer period for resolution of an Overdraft must be approved by the appropriate Vice Chancellor or Dean.

We evaluated the Overdraft Summary Report as of December 31, 2016 and met with the fiscal management to identify and discuss the deficits. We noted that as of December 31, 2016, department management was aware of accounts in deficit totaling \$6.3M, however there was not always a plan in place to address the Department deficit, and plans that were communicated were not documented in writing. The following table provides overdraft accounts as of December 31, 2016:

Fund Ranges	Overdraft Balances 12 months or less	Overdraft Balances 13 to 24 months	Overdraft Balances 25 to 36 months	Overdraft Balances over 36 months	Total Deficit	Total %
Educational Fund 05397		(\$299,554)			(\$299,554)	5%
Federal Grants & Contracts 16000A-16999A 21000A-33999A 93000A-94500A	(\$105,734)	(\$36,764)	(\$64,194)	(\$276,653)	(\$483,345)	8%
State Funds 19968A			(\$40,184)		(\$40,184)	1%
Endowment 36769A	(\$38,702)				(\$38,702)	1%

Fund Ranges	Overdraft Balances 12 months or less	Overdraft Balances 13 to 24 months	Overdraft Balances 25 to 36 months	Overdraft Balances over 36 months	Total Deficit	Total %
Gifts 41454A-56158A	(\$85,131)	(\$49,382)			(\$134,513)	2%
Clinical Funds 60105A - 60197A 60996A - 66845A	(\$810,486)	(\$3,037,788)		(\$248,982)	(\$4,097,256)	65%
Government Service Agreements 60990A	(\$393,593)				(\$393,593)	6%
Private Grants	(\$256,023)	(\$182,485)		(\$381,221)	(\$819,729)	12%
TOTAL \$	(\$1,689,669)	(\$3,605,972)	(\$104,378)	(\$906,857)	(\$6,306,876)	
TOTAL %	27%	57%	2%	14%		100%

On March 31, 2017, the Deans Office covered (\$2,518,195) of the deficit for clinical reserves (Fund 60120B), which reduced the remaining deficit total to (\$3,788,681).

The Department relayed that funds in other financial organizations within the Department offset some of these deficits, since accounting for some programs crosses organizations. Simplifying the Department chart of accounts could result in clearer reporting of deficits. Campus policy and management reports (including the figures below) identify overdrafts at the fund/organization level.

Ongoing unresolved financial deficits can result in delays in final expense reporting and could jeopardize future funding. In addition, unresolved deficit spending may also be interpreted as poor stewardship of awarded funds.