

**UNIVERSITY OF CALIFORNIA, DAVIS
INTERNAL AUDIT SERVICES**

**University of California, Davis Health System
CARES HIV Clinic
Internal Audit Services Project #12-05**

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MANAGEMENT SUMMARY

BACKGROUND

CARES (Center for Aids Research, Education & Services) was established in 1989 as a joint venture between UC Davis Health System (UCDHS), CHW Mercy, Sutter Health and Sacramento County to create a medical facility dedicated to treating HIV positive individuals. Kaiser Permanente later joined the project. CARES is the largest HIV/AIDS nonprofit clinic in the Sacramento region. It provides a wide range of clinical care and counseling programs for persons living with HIV, as well as free walk-in testing, community advocacy and education to area groups and schools. According to its latest available financial statement, CARES generated revenues totaling over \$17 million while serving more than 2,000 patients in 2010.

CARES contracts with the UCDHS for clinician and pharmacy services. These medical services are provided by UCD School of Medicine (SOM) faculty from the Division of Infectious Diseases. The CARES medical director is also an SOM employee. CARES paid the University over \$849,000 for medical services provided during calendar year 2011. The CARES Pharmacy is staffed by UC Davis Medical Center (UCDMC) personnel under a separate contract with the Pharmacy Department. CARES paid \$1.6 million to the UCDMC for pharmacy services during 2011.

PURPOSE AND SCOPE

The contracts between CARES and the UCDHS were audited as part of our planned reviews for Fiscal Year 2012. The purpose of the audit was to review the controls over the invoicing and collection of fees for the contracted services. We evaluated compliance with contract terms and the accuracy and timeliness of the invoices from the University and the payments from CARES. We also assessed the payment terms in the contracts to establish whether the rates fully compensated the UCDHS for the cost of providing the services.

We interviewed CARES and UCDHS personnel and reviewed relevant University policies. We reviewed the processes for tracking, invoicing, and receiving and applying payments from CARES for the services provided. We also selected a sample of transactions to test the accuracy of the data and the timeliness of invoices and payments. Finally, we compared the payment terms in the contracts to the total cost of the services provided.

CONCLUSION

We conclude that the Pharmacy Department and the Division of Infectious Diseases were preparing invoices and ensuring reimbursement from CARES on a timely basis. We also concluded that the current processes could be improved to ensure that all services provided by University personnel are appropriately invoiced to CARES. Billable hours for medical services were not independently validated and agreed upon incentive payments were not collected by Infectious Diseases. In addition, fees for pharmacy staffing were unbilled due to payroll modifications and indirect cost rates for pharmacy services were not charged in accordance with University policy. Our observations and recommendations are presented with the body of this report along with corresponding management actions.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

1. INVOICING FOR MEDICAL SERVICES

Procedures for ensuring that medical services provided are fully reimbursed could be improved.

Clinic hours are scheduled in advance between CARES staff and the individual physicians. CARES adjusts the scheduled hours for missed and/or unfilled clinic appointments and monthly generates a record of actual billable clinic hours via their electronic medical record. Infectious Diseases does not maintain an independent record of the actual time physicians spend at the clinic to validate the accuracy of the billable hours. At the end of the month, CARES provides a schedule of the billable hours for each physician to Infectious Diseases. The schedule is reviewed and approved by the Infectious Diseases division manager and forwarded to an analyst for preparation of the invoice to CARES.

CARES was unable to provide information from their electronic records system to validate the schedules they sent Infectious Diseases for 2011. However, a comparison of the monthly clinic hours scheduled in advance with the final schedules submitted by CARES for billing purposes showed significant differences. On average, the CARES schedule reflected 5.5% fewer clinic hours than the planned schedule, with a variance of as much as 18% for some months. Overall, this represents unreimbursed physician hours totaling more than \$39,000. Of this, we determined that adjustments due to unfilled clinic appointments totaled almost \$15,000 during calendar year 2011. According to UCD Policy 340-20, *Billing Procedures of Service Activities*, each service activity is responsible for maintaining a system that records and bills its charges for services rendered and goods delivered to user departments and non-University users. Absent independent verification of the actual hours physicians spend at CARES, the University lacks assurance that appropriate reimbursement is obtained for the services provided.

Recommendations

Infectious Diseases should develop a system to track actual physician time spent at the CARES clinic and invoice CARES accordingly.

Management Corrective Actions

Starting June 1, 2012, Infectious Diseases faculty will complete a timecard to track the number of hours worked at the CARES clinic each month. The monthly time card will be signed off by the provider and the medical director at CARES to verify hours worked. Signed time cards will be submitted to the division manager, who will ensure a monthly invoice is submitted to CARES by July 31, 2012.

2. INVOICING FOR PHARMACY STAFF SERVICES

Pharmacy could improve the invoicing process to ensure appropriate reimbursement for services provided.

The contract for Pharmacy staffing services at CARES calls for CARES to reimburse the University for all wages and benefits plus a 10% administrative fee for staff working at CARES. Pharmacy prepares invoices for payroll expenses of the previous month based on a report from the DaFIS system. However, to correct the accrual of benefits and salaries and other payroll expenses, Accounting and Financial Services posted payroll adjustments after Pharmacy ran the payroll reports and used them to calculate the CARES invoice. As a result, Pharmacy under billed CARES approximately \$20,000 for September 2011 through November 2011.

Recommendations

Pharmacy should invoice CARES for the amount owed and implement procedures to ensure the proper reimbursement for services provided.

Management Corrective Actions

Pharmacy began invoicing CARES after each month's fiscal close upon notice from Accounting & Financial Services that the period has closed in April 2012. An invoice was sent to CARES for the unbilled pharmacy staff costs on May 7, 2012.

3. INCENTIVE PAYMENT FOR MEDICAL SERVICES

Performance incentive payments were not collected.

The contract for medical services contained a Pay for Improved Performance incentive clause. This clause provided for additional incentive payments based on provider performance on four indicators, including increased tuberculosis screenings. In 2011, providers increased their rate of tuberculosis screenings by 9.1%, thereby meeting the stated goals. However, Infectious Diseases was reportedly unaware of the incentive clause in the current contract. Under the terms of contract that expired December 31 2011, Infectious Diseases qualified but did not invoice CARES for an additional payment of almost \$6,000.

Recommendations

Infectious Diseases should invoice CARES for the incentive payment earned under the terms of the contract through December 31, 2011, and any other incentive payments due and payable under the terms of the current contract.

Management Corrective Actions

An invoice was sent to CARES for Pay for Improved Performance Incentive for the months of May - December, 2011 on May 16, 2012.

Infectious Diseases management will follow up by June 30, 2012 to determine if the Pay for Improved Performance incentive applies to services provided to CARES in 2012 and beyond.

4. ADMINISTRATIVE FEES FOR AGREEMENTS

The terms and rates of payment in the CARES agreements may no longer be appropriate.

The CARES medical services agreement was originally a joint venture between CARES and the UCDHS. As such, no indirect costs were included in the contracted hourly rate. The Pharmacy staffing services contract calls for CARES to reimburse all wages and benefits for pharmacy staff working at CARES, plus a 10% administrative fee. The amount of the administrative fee was an estimate, and was not based on the University's indirect costs, any allocation of overhead, or a calculation of the contract's true cost.

According to PPM 340-25, *Recharge Activities*, if services are provided to non-university customers, the unit must recover indirect costs by assessing the non-university differential (NUD). According to the guidelines for recharge activities and rates associated with this policy, all recharge activities are subject to the NUD, except fees for professional services rendered by members of the faculty, including clinical activities directly associated with the academic mission. To balance the cost of supporting the University's administrative costs, other rates, such as the Dean's tax and the department tax, may be applied. The School of Medicine (SOM) confirmed that taxes were waived on the medical services contract, but no indirect cost rate exception was obtained for the Pharmacy staffing contract as required by Contracts and Grant Manual 8-321. If the Dean's tax rate (8%) and the department tax (15%) had been applied to the total amount invoiced in 2011 for medical services provided to CARES, the SOM would have netted an additional \$195,000. If the NUD of 29% had been applied to the Pharmacy staffing agreement, Pharmacy would have recovered an additional \$266,000 based on the total amount Pharmacy invoiced during 2011.

Recommendations

The School of Medicine should reconsider whether the University will continue to exempt the medical services agreement from other assessments moving forward with future CARES service agreements, and the Pharmacy Department should apply the appropriate indirect cost rate in connection with the services provided or seek an appropriate exception.

Management Corrective Actions

Infectious Diseases will work with the Health System Contracts Office to negotiate collection of the assessments with CARES by September 30, 2012.

Pharmacy will confer with legal regarding the applicability of the NUD to the CARES contract for pharmacy services and seek an exception if the NUD is determined applicable but not fully applied by June 30, 2013.
