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**Subject:           *Clinical Practice Organization Financial Statements  
Report 2018-12***

Audit & Management Advisory Services (AMAS) has completed a review of the Clinical Practice Organization (CPO) Financial Statements as part of our approved audit plan for the Fiscal Year (FY) 2017-18. This report summarizes the results of our review.

### **Background**

In 2016, UC San Diego Health (UCSDH) reorganized to create the CPO, formerly the UCSD Faculty Practice, under the umbrella of UCSDH. As part of the reorganization, the CPO assumed responsibility for clinical activities which may have resided in the former UCSD Medical Group/Faculty Practice, or in School of Medicine (SOM) departments. As a physician structure, the CPO maintains the operational and financial units of physician practices, including fiscal services, physician benefits, billing and collections, compliance, and management of ambulatory operations. The CPO transfers funds to SOM departments each month based on the clinical productivity of faculty in each department. The funds are then used by departments to pay salaries in accordance with department compensation plans and help fund department operations.

The CPO consisted of the following areas:

- Primary Care
- Surgery Specialties
- Strategic Affiliations<sup>1</sup>
- Medicine Specialties
- Other Clinical
- Administrative Services

The reorganization required the establishment of a new financial entity for the CPO under UCSDH. Significant effort has been made to complete the financial transition to the CPO, which includes creating a new financial structure, general ledger, and various financial and management reports. Following the creation of the financial entity in FY 2017, additional work was performed in the current FY (FY 2018), to realign indexes and provide financial information by functional area. The new index structure allows revenues and expenses to be posted to each unit's corresponding index, rather than separate indexes for revenues and expenses. Management utilizes Dun & Bradstreet Software (DBS) as their accounting system and this is used as the general ledger of record. The financial data within DBS is reconciled at fiscal year-end to match the data in UCSD's Integrated Financial Information System (IFIS). The financial transactions and accruals from DBS also flow into EPSi, UCSDH's financial reporting system.

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<sup>1</sup> Physician clinical activity is captured in the CPO for Strategic Affiliations, although CPO does not have operational responsibility for managing these agreements.

In FY 2016, UCSDH Management contracted a consulting firm to assist in developing financial projections for the CPO. Although these projections accounted for growth, they did not account for the additional investment expenses needed to achieve that growth. Management was able to use these projections and many of the underlying assumptions as a base to create revised projections for the CPO. Due to the structure of the CPO, projected growth of the CPO is based on projected growth in the physician workforce. Management has developed financial projections with goals to reduce the loss rate through efforts to improve collections, grow capacity and improve efficiencies.

The table below displays, in thousands, the financial results from FY 2017 and FY 2018 as of December 31, 2017, as well as projected financials for FY 2018 and 2019.

	FY 2017 Actual	FY 2018 Actual (as of Dec. 2017)	FY 2018 Projected	FY 2019 Projected
Net Patient Revenue	\$304,338	\$160,302	\$322,220	\$357,234
Premium/Other Revenue	77,217	31,683	79,794	73,692
<b>TOTAL OPERATING REVENUE</b>	<b>\$381,555</b>	<b>\$191,985</b>	<b>\$402,014</b>	<b>\$430,926</b>
Salaries	82,865	50,089	100,075	96,832
Benefits	29,930	17,548	35,055	39,032
Supplies	35,141	18,880	37,760	37,394
Purchased Services	66,028	31,121	60,995	56,753
Other Expenses	52,512	26,710	53,416	53,820
Depreciation	386	110	550	928
Care Payment Expense	229,818	127,259	254,518	290,156
<b>TOTAL OPERATING EXPENSE</b>	<b>\$496,679</b>	<b>\$271,717</b>	<b>\$542,368</b>	<b>\$574,914</b>
<b>INCOME /(LOSS) FROM OPERATIONS</b>	<b>(115,125)</b>	<b>(79,732)</b>	<b>(140,354)</b>	<b>(143,988)</b>
Total Transfers	62,197	35,190	70,380	87,000
<b>NET AFTER TRANSFERS</b>	<b>\$(52,928)</b>	<b>\$(44,542)</b>	<b>\$(69,974)</b>	<b>\$(56,988)</b>

### **Audit Objective, Scope and Procedures**

The objective of our review was to evaluate the accuracy and completeness of the FY 2017 CPO Financial Statements, and the reasonableness of management financial projections for future fiscal years. In order to achieve our objective, we performed the following procedures:

- Interviewed CPO Operations Management to understand organizational structure and basis for financial projections, updates and revisions;
- Interviewed CPO Financial Management to determine and understand accounting and reconciliation processes;
- Examined 2017 Cognos Financial Statements and verified indexes and a sample of balances for accuracy and completeness with IFIS; and
- Reviewed:

- FY 2018 and FY 2019 projections in detail for reasonableness and accuracy, in addition to verifying accuracy and integrity of financial worksheets,
- At a high level, the initial projections for FY 2020 and beyond, including rationale and reasonableness of assumptions used in preparation of these projections and the consultants' base projections,
- EPSi CPO financial structure to IFIS CPO financial structure to determine and understand differences.

The scope of our detailed review was limited to financial statements for FY 2017, and projections for FY 2018 and FY 2019. We did not review the projections for FY 2020 and beyond in detail, as management is currently revising them to align with the new organizational structure of the CPO.

### **Conclusion**

Based on our review procedures, we concluded that the FY 2017 CPO Financial Statements appeared to be accurate and complete. The financial projections for FY 2018 and FY 2019 appeared to be reasonable. We determined that management used reasonable benchmarks, rationale, and assumptions to document financial projections for these fiscal years. This included UCSD-accepted industry benchmarks, historical results, and management expectations. Therefore, the projected cumulative operating deficit of \$57m for FY 2019 appeared to be a fair estimate. Management continues to work on developing projections for future fiscal years.

Audit & Management Advisory Services appreciates the cooperation and assistance provided during the review.

UC policy requires that all draft audit reports be destroyed after the final report is issued.

If you have any questions regarding this report, please call me at 534-3617.

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