

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES**

**Clinical Funds Flow Review
Project #24-014**

May 2024



University of California
San Francisco

Audit & Advisory Services

UCSF Box 0818
1855 Folsom Street
San Francisco, CA 94143

tel: 415.476.3851
fax: 415.476.3326
www.ucsf.edu

May 31, 2024

David Morgan
Vice President/ Chief Operating Officer
UCSF Faculty Practice and Ambulatory Services

SUBJECT: Clinical Funds Flow Review

As a planned internal audit for Fiscal Year 2024, Audit & Advisory Services ("A&AS") conducted a review of Clinical Funds Flow operations. The purpose of this review was to validate the effectiveness of controls in place to implement model rules and ensure accurate payments; verify the development of the clinical fund's flow model for cFTE; assess the adequacy of change management for changes implemented starting October 1, 2024, and identify opportunities for improvements in the fund's flow activities.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the "IIA Standards").

Our review was completed and the preliminary draft report was provided to department management in May 2024. The opportunity for improvement has been discussed and agreed upon with department management.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance, and Audit Executive Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

A handwritten signature in black ink, appearing to read "Irene McGlynn".

Irene McGlynn
Chief Audit Officer
UCSF Audit & Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

As a planned audit for Fiscal Year 2024, Audit and Advisory Services (A&AS) conducted a Clinical Funds Flow review to assess the adequacy of the internal controls and processes for ensuring accurate assessment and allocation of clinical funds.

The Clinical Funds Flow process was implemented on July 1, 2014, as a way to financially align and better integrate specific organizations within the UCSF Health System. It is a way to compensate 21 School of Medicine (SOM) Clinical Departments and two School of Dentistry (SOD) Departments for the services provided by the providers in their group.

The general process of the Model is that UCSF Health collects revenue for clinical services at UCSF and covers patient care expenses.

Payments to UCSF School of Medicine Departments are made based on Tier classification. The Tiers are:

- Tier 1: productivity-based payment as measured in Work Relative Value Units (wRVUs) with the Department covering faculty salaries and clinical departmental expenses.
- Tier 2: payment based on operating income above budget shared between Health System, Academic Grants, and School of Medicine Departments.
- Tier 4: payment based on staffing for a few areas that need to be staffed for patient safety, regulatory mandates, or good patient care that do not generate enough wRVUs to support the necessary services.

The funds flow payment model is set up in the Decision Analytics Reporting Tool (DART), which automates most of the calculations needed for payments and creates journal entries.

The payroll Clinical Full Time Equivalent (cFTE) workgroup developed guidelines for cFTE definitions, defined and reviewed data, and developed implementation procedures in October 2023, including how to collect cFTE data, what information SOM clinical departments are required to provide, and what systems tools can be used or to collect and report the data. Payroll cFTE is utilized for determining clinical funds flow payments, benefit reimbursements and resources planning for Tier 1 and Tier 4. Payroll cFTE definitions have been developed independently by departments and vary based on rational factors such as subspecialty differences, recruiting on retention considerations, and financial sustainability.

For Fiscal Year 2024 (partial year), Tier 1 payments to departments totaled \$248 million and Tier 4 payments \$159 million. Tier 2 operations have not been implemented yet.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to validate the effectiveness of controls in place to implement model rules and ensure accurate payments; verify the development of the clinical funds flow model for cFTE; assess the adequacy of change management for

changes implemented starting October 1, 2023 and identify opportunities for improvements in the funds flow activities. The scope of the review covered Tier 1 transactions, development of the definition of payroll cFTE, overhead expenses, and dean's tax calculations for the period October 1, 2023, through December 31, 2023.

Validating the accuracy of the cFTE calculation was excluded from this review since payroll cFTE will be used for productivity calculations and benefit reimbursements for Tier 1 and Tier 4 starting March/ April 2024, which is after the scope period for this review. As a result, Tier 4 and cFTE calculation accuracy verification will be included in the next review of Clinical Funds Flow.

Procedures performed as part of the review included validating that specialty rate changes were appropriately analyzed, approved, and implemented; determining that the cFTE definition is in place; validating overhead and dean's tax calculations, and determining if overhead and dean's tax rates were implemented timely and effectively after October 1, 2023. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in March 2024.

III. **SUMMARY**

Based on work performed, the process to implement updates and changes to Funds Flow Model payment components and the controls to accurately calculate payments to departments are operating effectively. A&AS reviewed the adequacy and effectiveness of internal controls over the Funds Flow payment operation and determined the following:

Provider Payment Rates

- Medical Group Management Association (MGMA) rate methodology analysis was documented/supported adequately, and the rate methodology was applied accurately.
- Updates to the payment rate methodology were approved by the appropriate governing body (Faculty Practice Advisory Committee).
- Medical Group Management Association (MGMA) rates were uploaded in DART system accurately.

Overhead Expense

- An updated overhead expense of 9.5% became effective as of October 1, 2023, and it was applied appropriately to all department's eligible and other revenues.

Academic Mission Investment (Formerly Dean's Tax)

- As of October 2023, Dean's Tax of 5.15% single rate was used for all departments.

- Academic Mission Investment (formerly Dean's Tax) of 5.15% was applied appropriately to all departments based on appropriate Hospital Billing (HB) and Professional Billing (PB) eligible revenues, AB915 revenues, and other revenues.

wRVU Assignment

Centers for Medicare and Medicaid Services (CMS) data updates were implemented correctly in the DART system, and wRVUs were calculated accurately.

Reconciliations

- The process of mapping new providers and removing inactive providers after a suitable lag period to allow for delayed charge posting and reimbursements is in place.
- FPO management has a process in place to reconcile the department's payments automatically and review each month to identify/communicate and fix any variances between APeX and DART systems.
- FPO management has a process in place to manually reconcile the department's payments that are not going through the system and automate these reconciliations as appropriate.

Payroll cFTE

- A cFTE workgroup was established to define and develop guidelines and step-by-step procedures to determine what kind of cFTE data to collect, what information SOM clinical departments are required to provide, and what systems/tools can be used or should be developed to collect and report this data.
- Payroll cFTE guidelines were implemented to clarify the definition of cFTE.

During the course of this review, a potential opportunity for improvement was noted to enhance process efficiency in updating documentation and formalizing governance related to the changes implemented (see section IV below).

IV. OPPORTUNITY FOR IMPROVEMENT

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>
1	<p><i>A finalized Memorandum of Understanding (MOU) will formalize the approval process for different types of changes, including cFTE implementation, and help align understanding and expectations.</i></p> <p>The Clinical Funds Flow rates and calculation methodologies that became effective on October 1, 2023, were approved appropriately and timely, as shown by discussions between the School of Medicine (SOM) and Faculty Practice Organization (FPO) management at Faculty/Physicians Advisory Council (FPAC). However, the MOU between SOM and Medical Center (MC) has been not completed and signed to formalize the approval process for different types of changes, including cFTE implementation.</p>	<p>Not formally finalizing a MOU may lead to misunderstandings between parties or a misaligned interpretation of the process.</p>	<p>FPO management should finalize and sign off on the MOU to indicate the formal approval for different changes, including cFTE implementation, between FPO and SOM management.</p>

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed relevant Model documents, including the draft MOU and Model Guide.
- Reviewed Model set-up in DART.
- Reviewed rate methodology for Fiscal Year 2024.
- Interviewed key stakeholders involved with implementing monitoring funds flow payments and cFTE definition and development by departments. Determined if the cFTE development is in accordance with the guidelines and consistent across departments.
- Obtained an understanding of Payroll cFTE and methods of calculation.
- Tested a sample of newly established or updated rates to validate that changes were made timely to calculations and payments were made accurately (updated overhead rate and academic mission investment rates).
- Tested a sample of departments and determined if overhead expense and dean's tax new rates have been applied and calculated appropriately.
- Identified opportunities for improvement in Clinical Funds Flow payment calculation update processes.