

**UNIVERSITY OF CALIFORNIA, DAVIS  
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis Health  
Department of Dermatology  
Audit & Management Advisory Services Project #23-14**

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**Department of Dermatology Review  
AMAS Project #23-14**

**Management Summary**

**Background**

As part of the fiscal year (FY) 2023 audit plan, Audit and Management Advisory Services (AMAS) performed an administrative review of the UC Davis School of Medicine's (SOM) Department of Dermatology (Dermatology).

Dermatology consists of two clinical divisions, the Dermatologic Clinic and Dermatologic Surgery, which collectively provide services in eighteen subspecialties. Additionally, the department engages in medical resident and fellow training, research endeavors, and the delivery of specialized clinical services.

In FY2022, Dermatology had total expenditures of \$19.2 million and 74 individual employees which were approximately 60 full time equivalents (FTE). Of their total employee count, 49 FTE were dedicated to academic and clinical activities and 11 FTE were research and administrative support personnel.

**Purpose and Scope:**

The purpose of our review was to assess internal controls over business operations and administrative processes and to review financial performance over the past five fiscal years ending June 30, 2022.

To accomplish these objectives, we reviewed trends in critical financial data. We conducted interviews and tests of internal controls and processes and collected feedback from the SOM and UC Davis Health leadership. We conducted a financial analysis of Dermatology's fund sources and uses, accounts receivable, compensation and timekeeping, and UC Path data. We also reviewed UC Davis policies and procedures, local business processes, as well as Dermatology's compliance with licenses, training, and certifications.

**Conclusion:**

We express our gratitude to Dermatology for assisting AMAS staff throughout the review process. Additionally, we commend Dermatology's leadership for their willingness to establish and enhance a new organizational structure within the department, which will contribute to the establishment of proper separation of duties.

**Significant Accomplishments:**

**Compensation Plan Restructure:** Dermatology has volunteered to participate in a pilot compensation implementation program in collaboration with Chartis<sup>1</sup> to develop a comprehensive compensation plan for the SOM. The proposed compensation methodology

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<sup>1</sup> Consultancy firm hired to assist SOM in implementing improved comprehensive compensation plans for departments.

involves the Department Chairs establishing a salary band around a benchmark for each specialty and rank. This methodology incorporates the department's average productivity and an expected amount of fixed incentive opportunity.

Dermatology is scheduled to implement the new pilot compensation plan in FY 2025, allowing for testing and evaluation of the plan's effectiveness within the department.

Grants Revenue: As of February 6, 2023, UC Davis Dermatology is ranked #14 in the Blue Ridge National Institute of Health (NIH) grant funding rank among dermatology departments in the United States.

**Risks and Challenges:**

Revenue Allocation Model: In FY 2022, UC Davis Health implemented a new Funds Flow model to allocate revenues and costs across multiple clinics and departments. This model aims to establish a transparent system that incentivizes productivity. However, implementing the Funds Flow model has led to challenges within Dermatology because its clinical productivity has not historically been at levels sufficient to support compensation.

To ensure that physician salaries are consistent with pre-Funds Flow levels, UC Davis Health has implemented Glidepath to enable clinical departments to maintain historical faculty compensation during the Funds Flow transition. For the five-year period<sup>2</sup> from the launch of Funds Flow on July 1, 2021, assistance will be provided to support faculty compensation provided productivity is equal to or greater than the prior year. In FY 2022, Glidepath was utilized to augment salaries for 10 of the 19 Dermatology physicians.

Staffing: A five-year staffing trend from FY 2019 to FY 2023 is shown below. During this period, there was a notable decrease in administrative staff, with 25 fewer FTE than the initial staffing level and an overall reduction of 30 FTE. The decline in staff levels commenced in FY 2020, due to the transition of Dermatopathology to medical center operations as part of the Funds Flow initiative. Since then, Dermatology staffing numbers have continued to decline each year.

<b>Full-Time Equivalent</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Change in Staffing</b>
Academic: Academic Student	1.6	1.9	2.3	2.3	2.8	1.12
Academic: Faculty	25.6	24.9	24.6	24.6	23.3	(2.26)
Academic: Non Faculty	13.2	14.7	13.5	14.1	14.0	0.75
Academic: Post Docs	11.0	8.5	5.5	4.0	5.0	(6.00)
Academic: Recall	-	-	-	0.4	0.5	0.53
ASC Physicians	1.6	2.7	1.6	1.6	1.9	0.30
<b>Academic/Clinical</b>	<b>53.0</b>	<b>52.6</b>	<b>47.5</b>	<b>47.0</b>	<b>47.5</b>	<b>(5.6)</b>
Staff: Career	34.8	17.3	16.5	12.5	11.3	(23.50)
Staff: Per Diem	0.0	-	-	-	-	(0.00)
Student: Casual/Restricted	1.6	2.0	-	0.5	0.5	(1.12)
<b>Administrative</b>	<b>36.4</b>	<b>19.2</b>	<b>16.5</b>	<b>13.0</b>	<b>11.7</b>	<b>(24.6)</b>
<b>Grand Total</b>	<b>89.4</b>	<b>71.8</b>	<b>64.0</b>	<b>60.0</b>	<b>59.2</b>	<b>(30.2)</b>

<sup>2</sup> For FY 2022, 100% assistance was provided for any shortfalls, but the percentage will decline each year until FY 2027 when the assistance will no longer be supported by UCD Health.

**Financial Highlights:**

From FY 2018 to FY 2022 Dermatology’s income and expenses each declined by 30%, a reduction of \$5M in the total funds available at the year ending June 30, 2022, compared to the year ending June 20, 2018. Comparatively the net funds available declined by only \$4.1M but is a 39% reduction from five years ago. Factors that contributed to these fluctuations are changes that were part of the Funds Flow initiative:

1. Under the previous Resource Allocation Model (RAM), Dermatology assumed all related expenses and collected the global fee for the relative value unit (RVU), which included the professional services fee, the practice expense and malpractice reimbursement. From these revenues only a portion was carved out to return to the medical center. In the current Funds Flow model Dermatology receives funding for only the professional services component of the RVU and the practice expense reimbursement and corresponding expenses are incurred by the medical center. The result is a reduction in income and expenses to Dermatology, for a net revenue decrease of approximately \$1M-\$2M annually.
2. Staff for the Dermatopathology laboratory have migrated from SOM Dermatology to a UCDMC based department. With that migration all expenses, and non-academic staff associated with those services have also transitioned. The impact is a \$2.3M decline in Dermatology expenses.

The table below shows financial highlights for Dermatology<sup>3</sup>. Appendix A provides a five-year detailed analysis of fund sources and uses.

<b>Dermatology Financial Highlights</b>				
<b>\$ in millions</b>	<b>FY 2018</b>	<b>FY 2022</b>	<b>\$ Change</b>	<b>% Change</b>
Total Carryforward Funds	9.3	10.9	1.6	17%
Total Current Year Funding	35.2	20.2	-15.0	-43%
Total Expenditures	27.6	19.2	-8.4	-30%
<b>Total Funds Available at Year End</b>	<b>16.9</b>	<b>11.9</b>	<b>-5.0</b>	<b>-30%</b>
Less Extramural (Grants)	2.7	2.4	-0.3	-10%
Less Endowments & Restricted Gifts	0.7	0.9	0.2	31%
<b>Total Unrestricted Funds Available</b>	<b>13.6</b>	<b>8.6</b>	<b>-5.0</b>	<b>-37%</b>
Less Committed and Known Obligations	3.1	2.2	-0.9	-29%
<b>Net Funds Available at Year End</b>	<b>10.5</b>	<b>6.4</b>	<b>-4.1</b>	<b>-39%</b>

<sup>3</sup> Since transitioning to the funds flow model, Dermatology’s financial outcomes have exceeded SOM leadership expectations.

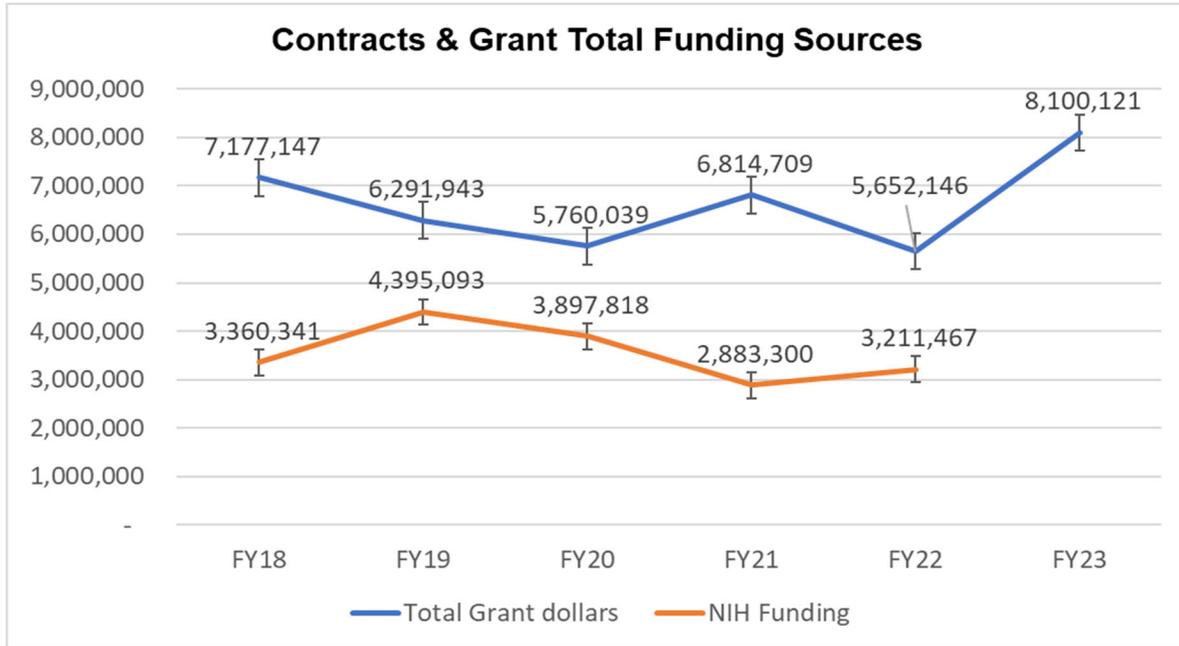
The majority of expenditures were for salaries and benefits for the five years reviewed. Salaries and benefits declined from \$18.6M in FY 2018 to \$17.3M in FY 2022. However, they now comprise 22.7% more of total expenses and account for 90.2% of department expenditures in FY 2022. Supplies and services also declined significantly from \$8.4M in FY 2018 to \$1.7M in FY 2022 and now account for only 9% of total expenditures. The migration of Dermatopathology and changes from the implementation of Funds Flow contributed to the decrease in these expenses.

<b>Dermatology Fund Uses</b>	<b>% of Total 18</b>	<b>% of Total 22</b>	<b>Change</b>
Salaries & Benefits	67.4%	90.2%	22.7%
Supplies & Services	30.4%	9.0%	-21.4%
Travel & Entertainment	0.9%	0.5%	-0.5%
Subcontracts	0.9%	0.0%	-0.9%
Equipment & Depreciation	0.2%	0.3%	0.1%
Scholarships & Fellowships	0.1%	0.1%	-0.1%

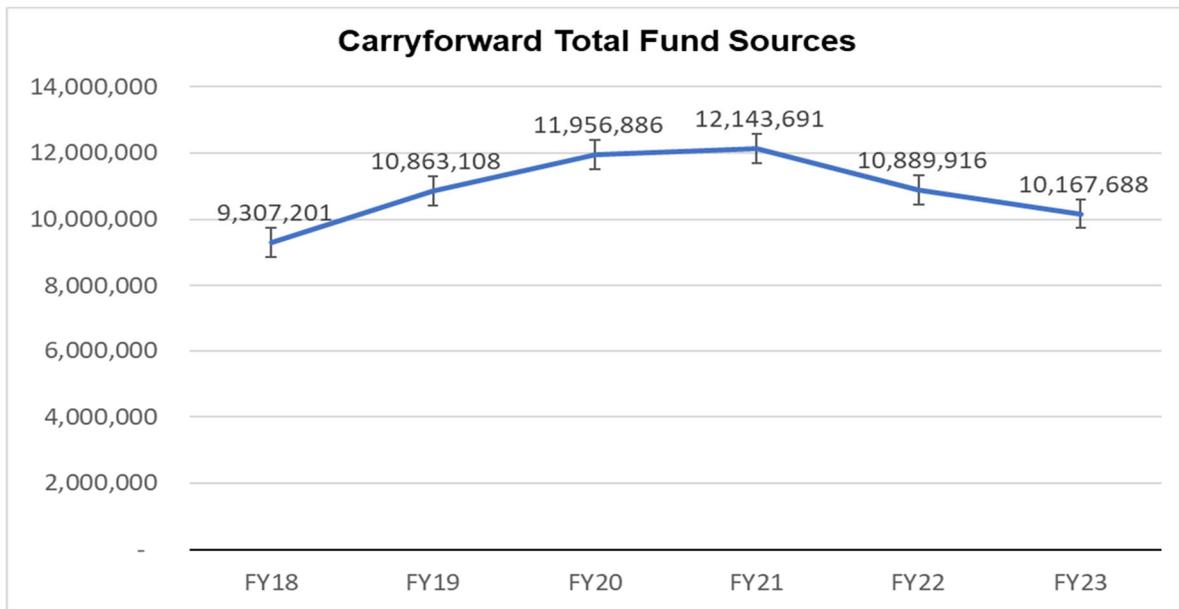
Self-supporting funds declined \$10M over the five years; however, as a percentage of total income, it increased 1.1%. At the same time, contracts and grants declined by \$1.5M over the five years; however, as a percentage of the total income, it increased by 2%. General funds declined due to a change in accounting principles in FY 2022 and are now classified as University Common Funds and are included in the Self-Supporting Funds category.

<b>Dermatology Fund Sources</b>	<b>% of Total 18</b>	<b>% of Total 22</b>	<b>Change</b>
Self-Supporting Funds	77.7%	78.7%	1.1%
Contracts & Grants	16.1%	18.2%	2.0%
General Funds	3.3%	0.0%	-3.3%
Gift/Endowments	1.9%	2.9%	1.1%
Indirects/Opportunity Funds	0.7%	0.0%	-0.7%
Reserves	0.4%	0.0%	-0.3%
Student Fees	0.0%	0.1%	0.1%

From FY 2018 to FY 2022, Dermatology has ranked in the top 15 for the most NIH research dollars in the nation. NIH funding has averaged \$3.5M per year over the past 5 years which is an average of 57% of total Dermatology grant revenue.<sup>4</sup>



Carryforward balances are unexpended balances at the end of the year. Dermatology increased its carryforward balance from \$9.3M to \$12.1M from FY 2018 to FY 2021. Starting in FY 2022, there was a decline in the carryforward funds of \$1.3M, and for FY 2023,<sup>5</sup> Dermatology's carryforward funds decreased by \$700k resulting in an ending carryforward balance of \$10.2M.



<sup>4</sup> NIH data is not available for 2023.

<sup>5</sup> FY 2023 is displayed on this graph to demonstrate the continued decline of carryforward funds.

**Observations, Recommendations, and Management Corrective Actions****A. The Dermatology compensation plan does not reflect all compensated services.**

During the review AMAS noted that payments were issued for services that were not specified in the FY 2022 or FY 2023 compensation plans. These included payments to faculty hired after the compensation plan was initiated and Y payments for administrative services that were not listed. Though it is expected for departments to amend compensation plans if changes are required during the year, no such amendments were submitted by Dermatology.

Payments that are not defined within the compensation plan reduce transparency into departmental finances and activities and raise concerns with inequity. The SOM Dean's Office is implementing an updated review process to improve transparency and ensure that payments align with approved compensation plans.

**Recommendation**

Dermatology should ensure that its compensation plan accurately reflects all faculty appointments and compensated services, including an accurate reporting of the percentage of appointment time allotted to each service.

**Management Corrective Action**

1. Dermatology will by December 31, 2023, document procedures for amending its compensation plan to remain current throughout the year and will ensure that all administrative services and faculty who participate in the health compensation plan are included in the current year's plan.

**B. Staffing shortages could contribute to lapses in financial oversight and impact department operations.****1. Prolonged administrative staff vacancies can be disruptive to operations.**

Over the past five years Dermatology has lost a number of key administrative support staff<sup>6</sup>. Responsibilities assigned to those roles have not been reassigned sufficiently to ensure that the tasks are completed timely and with proper segregation of duties in place. Additionally, we observed indicators that failure to recruit and fill these key positions may tend to overburden remaining staff and increase the risk of burn out, causing further disruption to Dermatology's operations.

Based on data in UC Path, Dermatology currently has six administrative support staff and nine active vacancies. Dermatology has acknowledged that not all open vacancies will need to be filled but has not developed a staffing model or defined job duties to initiate recruitments for vacancies that do need to be filled.

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<sup>6</sup> In an effort to mitigate the loss of personnel, Dermatology has partnered with staff in other departments to provide support with various financial transactions and contracts and grants financial reporting.

**Recommendation**

Dermatology should finalize a staffing model and develop corresponding job descriptions so recruitments can be initiated.

**Management Corrective Action**

1. Dermatology will by October 31, 2023, complete the following steps:
  - Finalize staffing model;
  - Update job descriptions based on revised staffing model; and
  - Submit recruitments to Aggie Service.
  
2. **Dermatology does not have sufficient processes to ensure proper financial oversight.**

AMAS identified multiple concerns related to fiscal oversight during the review. Though staff turnover and prolonged vacancies can contribute to the issues identified, another contributing factor is a lack of defined roles and standardized procedures within the administrative unit.

Lapses observed during the review include:

- Required general ledger reviews are past due.
- Accounts receivable balances for services provided to outside entities are not monitored sufficiently. We observed multiple accounts receivable that were more than 120 days past due, and insufficient documentation exists to confirm the appropriateness of billed charges.
- If a payroll transaction is not assigned to a specific general ledger account, the expense is posted to a default account. At the end of FY 2022 Dermatology had \$301k in payroll expenses in a default account that should have been reassigned to specific cost centers. Expenses assigned to a default account are not reflected on appropriate grants and could be omitted from Z payment calculations.
- Though AMAS observed that expenses were generally submitted timely in Aggie Expense, the department approver did not consistently review supporting documentation.
- Dermatology has not defined standardized workflows or routine reporting that would ensure any misassigned expenditures are identified and corrected timely.

**Recommendation**

Dermatology should strengthen its oversight of financial transactions and develop workflows, operating procedures, and standardized reporting to improve transparency and provide assurance that expenditures are applied to appropriate accounts.

**Management Corrective Action**

1. By April 15, 2024. Dermatology will document operating procedures and standardized reporting to improve workflows and provide assurances that transactions are applied appropriately.

**3. Dermatology faculty are coordinating research activities with Shriners Hospital for Children (Shriners) without an agreement in place.**

Dermatology bills Shriners quarterly. We observed invoices that did not include sufficient supporting documentation, and there was no agreement in place between UC Davis and Shriners to define what activities are being conducted or details related to payment terms and amounts.

**Recommendation**

Dermatology should coordinate with Shriners to finalize an agreement that defines the terms, duration, and payment schedule. Additionally, Dermatology should ensure that sufficient documentation is included when invoices are generated.

**Management Corrective Action**

1. By January 31, 2024, Dermatology will finalize an agreement with Shriners and begin to include supporting documentation when generating invoices.

**C. There is not sufficient oversight to ensure transparency for compensated administrative services.**

**1. No secondary approval of Medical Director agreements**

The Chair of Dermatology is an academic appointment supported by the SOM and the role of Medical Director is a clinical appointment supported by the UC Davis Medical Center. From FY 2021 to 2023 the Chair of Dermatology filled both roles. When finalizing a memorandum of understanding between the UC Davis Medical Center and Dermatology, the Chair signed the agreement in two places: as the Chair approving the agreement and as the Medical Director accepting the responsibilities. This process does not provide transparency within the department, nor does it reflect appropriate segregation of duties.

**Recommendation**

In future instances when the Chair holds dual appointments such as the Medical Director for a SOM Department, the Dean of the SOM (or an appropriate delegate) should act in the place of approver for the SOM Department.

**Management Corrective Action**

1. By December 28, 2023, SOM Dean's Office will distribute a communication that in future instances when a Department Chair holds multiple appointments, review and approval of the secondary appointment will be required by the Dean's Office.

**2. No supporting documentation to define administrative services within SOM departments.**

Within Dermatology there are multiple physicians receiving additional compensation for administrative services, but documentation was not available to define expectations or duties assigned. Without clarification of the assigned duties AMAS was unable to confirm if compensation was provided to multiple physicians for the same service, or that the compensation was consistent with the level of responsibility within the department.

Documentation that defines expectations and duties for all administrative services would improve transparency and accountability.

**Recommendation**

The SOM Dean's Office should implement a requirement that all administrative services, and the corresponding compensation amount, be defined in a written document and agreed to by the department and the individual providing the services.

**Management Corrective Action**

1. By March 15, 2024, the SOM Dean's Office will develop a template for SOM departments to utilize in documenting commitments with clinical staff for administrative services along with the corresponding compensation.
2. By March 29, 2024, the SOM Dean's Office will communicate to departments an expectation to utilize the newly developed template when providing additional compensation for administrative services.

Appendix A

Financial results for Department of Dermatology as a whole from FY 2018 to FY 2022:

	FY18	FY19	FY20	FY21	FY22
<b>FUND SOURCES</b>					
Self-Supporting Funds	34,561,131	34,521,859	31,474,935	23,405,854	24,486,186
Contracts & Grants	7,177,147	6,291,943	5,760,039	6,814,709	5,652,146
General Funds	1,446,727	1,590,607	1,753,035	1,402,593	0
Gift/Endowments	825,103	817,434	718,258	781,582	909,532
Indirects/Opportunity Funds	320,162	557,751	551,233	376,455	0
Reserves	158,022	186,733	23,525	16,316	13,316
Student Fees	15,404	22,030	29,256	36,835	36,483
<b>Total Sources</b>	<b>44,503,695</b>	<b>43,988,357</b>	<b>40,310,281</b>	<b>32,834,344</b>	<b>31,097,662</b>
<b>LESS EXPENDITURES</b>					
Salaries & Benefits	(18,575,628)	(18,634,653)	(18,748,110)	(16,738,221)	(17,333,830)
Supplies & Services	(8,370,705)	(8,895,389)	(6,795,958)	(2,851,397)	(1,729,828)
Travel & Entertainment	(258,253)	(203,974)	(138,717)	(14,795)	(91,480)
Subcontracts	(239,383)	(205,669)	20,863	-	-
Equipment	(60,680)	(245,756)	(229,820)	(521,823)	(54,099)
Depreciation	(48,017)	(48,017)	(9,205)	-	-
Scholarships & Fellowships	(37,868)	(33,762)	(930)	(21,302)	(13,718)
Special Items	-	(349)	-	-	-
<b>Total Expenditures</b>	<b>(27,590,535)</b>	<b>(28,267,569)</b>	<b>(25,901,877)</b>	<b>(20,147,539)</b>	<b>(19,222,956)</b>
<b>Total Funds Available</b>	<b>16,913,160</b>	<b>15,720,788</b>	<b>14,408,404</b>	<b>12,686,805</b>	<b>11,874,707</b>
Less: Contracts and Grants	2,693,723	2,388,674	2,692,382	2,849,622	2,421,758
Less: Endowments and Gifts	669,424	606,694	646,786	693,744	879,668
<b>Unrestricted Funds Available at Year End</b>	<b>13,550,014</b>	<b>12,725,420</b>	<b>11,069,235</b>	<b>9,143,439</b>	<b>8,573,281</b>
Less: COBL and KOBL	3,088,573	1,788,068.43	2,366,462.74	1,984,370.17	2,207,531.73
<b>NET FUNDS AVAILABLE</b>	<b>10,461,440</b>	<b>10,937,351</b>	<b>8,702,773</b>	<b>7,159,068</b>	<b>6,365,749</b>