COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

October 20, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **DREW UNIVERSITY RESPONSE TO KING/DREW MEDICAL CENTER AFFILIATION AGREEMENT AUDIT REPORT**

On August 17, 2004, we issued a report on our review of King/Drew Medical Center's (KDMC) affiliation agreement (Agreement) with the Charles R. Drew University of Medicine and Science (Drew). Under the Agreement, the County paid Drew approximately $13.6 million a year for academic teaching services and clinical services at KDMC.

Our report indicated that Drew and KDMC did not maintain records needed to evaluate if Drew was being paid properly under the Agreement. The report also noted that Drew was paid approximately 57% more per medical resident than was paid to UCLA for academic services at Harbor/UCLA, and that the Department of Health Services (DHS) needed to ensure that its payments to Drew were correct based on the number of residents in the academic training programs. The report included a total of 11 recommendations of which three were specifically addressed to Drew.

On September 17, 2004, Drew issued a response to our report (Attachment 1). Drew's response indicates our report is "inaccurate and misleading" and not objective and concludes that our report "demonstrates a lack of respect for the participants, structures and processes" responsible for the Agreement. Drew appears to believe that only one of our recommendations, related to developing alternative performance measures, is correct.

Drew has mischaracterized the nature of our review and report. We believe that our report is accurate, objective and provides recommendations for KDMC and Drew to take action to ensure that the requirements and expectations of the Agreement are met. DHS agreed with the intent of our recommendations as demonstrated by the new affiliation agreement which was approved by the Board on September 14, 2004. The

new agreement addresses most of the issues and concerns noted in our August 17, 2004 report. The following is a brief summary of some of the issues raised by Drew and our responses.

Time Records

Our review disclosed a lack of adequate records, such as the time records. Drew and KDMC did not have sufficient records of the actual hours worked by Drew staff at KDMC. Drew indicated that they kept records of hours provided by physician. However, Drew acknowledges, as indicated in our report that the records they provided did not distinguish between academic (medical teaching services) and clinical (direct patient care) services. It should be noted that the Agreement requires the County to pay Drew separately for each of these services. Consequently, there should be proper records, such as time records to document the services provided. Drew failed to recognize that the Agreement requires that Drew be compensated based on actual services provided.

Drew's response indicated that they agree with our recommendation for KDMC to require Drew to provide timecards to document the services provided.

Payment Per Resident Comparison

Our review noted possible cost or payment exceptions, such as the cost per resident or the number of residents in the programs. We recommended that DHS develop more detailed information and evaluate the issues. Drew's response indicates that they believe our comparison was a selective comparison because we did not include the cost per resident at Olive View Medical Center. It is true that we limited our comparison to King/Drew and Harbor/UCLA. This is because KDMC and Harbor/UCLA are closer in size, with 336 and 417 residents respectively, than they are to Olive View, which only has 149 residents. In addition, part of the payment under the UCLA contract is for salaries and employee benefits for the Olive View residents who are employed by UCLA.

As indicated in Drew's response, there may be a number of reasons for the difference in the cost per resident among the facilities. As a result, our report did not conclude that Drew was less cost efficient than Harbor/UCLA. Instead, we recommended that DHS require all the schools with which it contracts to provide detailed records of how affiliation agreement funds are used, and then use that information to compare the cost per resident and determine whether the differences are reasonable.

Review of Prior Payments

Drew also disagrees with our recommendation to ensure that prior payments to them for academic services based on the number of residents were appropriate. Exhibit A of the Agreement indicates that training programs will be categorized based on the number of residents in the programs, with different payments for Small Programs, with 15 or fewer

residents, and Large Programs with more than 15 residents. Drew indicated that the actual number of residents is "not materially significant" to the payments they receive. Our report showed that Drew was getting paid for operating a Large Program when in fact it was a Small Program with 14 residents. Because there may be some uncertainty over the Agreement provisions, we recommended that DHS evaluate the prior payments. We did not conclude that, because there were fewer residents in one program than the Agreement states, that Drew was overpaid.

Summary Comments

It should be noted that many of the explanations cited by Drew in their response were discussed at our exit meeting with Drew before our report was issued. At that meeting, we discussed the results of our review and explained to the Drew representatives why their comments regarding specific sections of the report did not warrant eliminating the areas from our report.

As indicated above, and as noted in our September 13, 2004 memo (Attachment 2) to the Board, the new affiliation agreement addresses most of the operational issues from our report and improves the controls over services received from and payments to Drew. We plan to work with DHS and Drew to address any operational issues we believe have not been clearly addressed in the new affiliation agreement.

If you have any questions, please call or your staff may call Jim Schneiderman at (626) 293-1103.

Attachments
JTM:MMO:JS

c: David E. Janssen, Chief Administrative Officer
Department of Health Services
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer
Dave Runke, King-Drew Medical Center
Tecla Mikoseff, Harbor/UCLA
Charles R. Drew University
Board of Trustees
Harry E. Douglas III, DPA, Interim President
Ron Lau, Ed.D., MBA, Vice President and CFO
Thomas Rosenthal, M.D., UCLA
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee (6)

CHARLES R.
DREW
UNIVERSITY OF MEDICINE & SCIENCE

September 17, 2004

J. Tyler McCauley, Auditor-Controller
County of Los Angeles
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 525
Los Angeles, California 90012-2766

Subject: **Report on King/Drew Medical Center Affiliation Agreement Dated August 17, 2004**

Dear Mr. McCauley:

Charles R. Drew University of Medicine and Science (Drew) is in substantial compliance with the County Affiliation Agreement. The County of Los Angeles Auditor-Controller's Office has developed twelve recommendations, nine which relate to the County Department of Health Services (DHS) and Martin Luther King, Jr./Drew Medical Center (KDMC). Only three of the recommendations relate to matters of Drew compliance.

Only one of the three Drew recommendations, Recommendation 12, is based on accurate information. Recommendation 12 suggests that DHS and Drew develop and implement performance measures. Recommendations 5 and 9 are based on inaccurate information and inaccurate interpretations of the agreement. There were no findings that indicated Drew failed to provide the services. There were no findings that indicated Drew expended the funds inappropriately. There were no findings that indicated Drew was paid incorrectly. The evidence clearly shows that services were performed, funds were expended appropriately, and the payments to Drew were proper.

The report provides inaccurate and misleading information. Auditors were provided information that documented the expenditures and the services that were provided. Drew repeatedly communicated concerns to the auditors that their interpretations were inaccurate when compared to the structural and operational relationships that were developed as per the agreement. Drew objected on a number of occasions to the manner in which issues not related to its performance were slanted to appear as if they were deficiencies or matters of non-compliance.

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The report states that KDMC paid Drew based on the agreement, not on the actual number of residents. The Auditor-Controller asserts that payments are supposed to be based on the number of residents enrolled, not on the agreement. The evidence clearly shows that the Auditor-Controller's logic is seriously flawed. The suggestion that the payment may be incorrect is based on a false hypothesis. The payments to Drew were correct.

The report states that 12 physicians exceeded the maximum compensation limits allowed under the agreement. The information that the auditors provided Drew to support their statement is wrong. Providing conditional comments after making the affirmative statement of non-compliance is misleading.

The comparison between Harbor/UCLA Medical Center (H/UCLA) and Drew demonstrates that the agreements are not comparable without a common denominator. The comparison of cost per resident is misleading. The County pays Olive View Medical Center (Olive View), another UCLA program, the same amount per resident as Drew.

The report is inaccurate and misleading. However, the report does provide appropriate recommendations to improve the administration and accountability of the agreement. The report, when viewed objectively, validates that Drew was in substantial compliance with the agreement.

More detailed information is provided in the attached response. If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

Ron Lau, Ed.D., MBA
Vice President and Chief Financial Officer

Cc: Board of Trustees, Charles R. Drew University
Harry E. Douglas III, Charles R. Drew University
Thomas L. Garthwaite, Department of Health Services
Board of Supervisors, County of Los Angeles
David E. Janssen, Chief Administrative Officer
David Runke, King/Drew Medical Center
Tecla Mikoseff, Harbor/UCLA
Thomas Rosenthal, UCLA
Violet Varona-Lukens, UCLA
Audit Committee and Public Information Office, UCLA
Executive Council, Charles R. Drew University

Response to the Auditor-Controller Report on the King/Drew Medical Center Affiliation Agreement

Charles R. Drew University of Medicine and Science (Drew) has carefully reviewed the report, and will respond positively to key recommendations. Most importantly, the findings validate that Drew is in significant compliance with the County Affiliation Agreement. The report identifies a number of issues to be reviewed and proposes recommendations. However, there are significant instances of inaccurate and misleading information which detracts from the objective utility of the report. Auditors were provided information that documented the expenditures and the services that were provided. Concerns were repeatedly communicated to the auditors relating to interpretations that were counter to specific structural and operational relationships that were developed to administer the agreement. There has also been the necessity to object, on a number of occasions, to the manner in which the report slants the information relating to matters of the agreement and to the administrative processes within the County system, as if they were issues of Drew compensation or compliance.

The report addresses four very complex issues, but does a very poor job of separating one issue from another. This response addresses the four issues and comments on their application to Drew. An overall commentary on the report will be given and specific issues addressed. Drew will then comment on the individual recommendations.

The Four Issues

1) The first issue that is addressed by the report is the affiliation agreement, itself. The auditors were not part of the process that developed the agreement, nor did they participate in the development or revision of any amendment or addendum. As a result, they do not know the basis or intention of the agreement, in whole, or with specificity. The report recommendations will improve the clarity and accountability of the agreement. However, the auditors lack the foundation and history of the agreement to be able to objectively evaluate issues of compliance. The current agreement states that the Facility Joint Planning and Operations Committee (FJPOC) is responsible for the reconciliation of the volume of purchased services and the payment for the purchased services. These matters were addressed and resolved in the committee meetings, as per the agreement. The report comments on the numbers of residents in the training programs. The agreement identifies Pediatrics Ambulatory Care as having 0 residents. The agreement states that Drew will provide academic services to Nephrology and Cardiology, even though the report indicates that these programs are accredited through UCLA. The intentions and expectations for these programs are not clearly articulated. The report appropriately recommends

that Department of Health Services (DHS) and Martin Luther King, Jr./Drew Medical Center (KDMC) review these issues. The recommendation that KDMC may seek reimbursement, even though payments were made in accordance with the agreement, is not appropriate.

2) The second issue that is addressed by the report is the administration of the affiliation agreement. A number of the recommendations relate to the County's monitoring, evaluation, and oversight, of the agreement through KDMC and DHS. The current agreement provides for the FJPOC to monitor and reconcile services and payments. Drew has provided the FJPOC with regular reports on the services provided and expenditures. KDMC leadership and Drew leadership have worked well together the past five years in administering the agreement. The auditors have developed recommendations relating to documentation and accountabilities because they are unable to reconcile the services and payments to the agreement. The Board of Supervisors (BOS) and DHS are not clear on the quantity and quality of services received. The recommendations will improve the communication and administration of the agreement.

3) The third issue that is addressed by the report relates to the efficiency of the affiliation agreement. The comparison of costs between Harbor/UCLA Medical Center (H/UCLA) and Drew should be expanded to all of the facilities. The auditors recognized the differences among the agreements during their review and the difficulty that posed in attempting to compare costs. Costs and the value of purchased services are very important to any agreement. This matter is an internal issue for the County in the administration of all of the agreements. Developing a more consistent format for the agreements will facilitate future comparisons.

4) The fourth issue relates to Drew's compliance with the affiliation agreement. As part of this matter, the auditors raised the issue of whether or not Drew was paid properly. Drew complied with the agreement. Drew was paid properly, in accordance with the agreement. Service and budget reports were regularly provided to the FJPOC, discussed, and accepted. Operating decisions were made and implemented. Budgets were discussed and negotiated. Funds were allocated and approved through the FJPOC. The auditors have interpreted the agreement in order to develop their report. The interpretation does not reflect the actual administration of the agreement by the FJPOC. The report does not reflect the intentions of the agreement. The report does not recognize, nor respect, the processes and decisions that resulted from the FJPOC.

The Report

The report identified three objectives. The first objective was to determine whether or not Drew was being paid properly for services. The second objective was to compare the cost of the Drew agreement to the UCLA at H/UCLA

agreement. The third objective was to review Drew's compliance with physician compensation.

Drew was paid properly for services per the agreement. The agreement indicates that the County will pay Drew the agreed upon amounts. Drew provided clinical and academic services to KDMC. Drew provides, on a regular basis, the number of hours of services by physician, by department, by month, to KDMC. Budgets and financial reports are shared and discussed at the FJPOC. Drew provides annual reports on physician compensation to KDMC. This information was shared with the auditors. FJPOC meeting minutes are available for verification. In addition, this information can be verified through personal interviews with KDMC and Drew staff. KDMC agreed to the types and quantities of services Drew provided. The audit issue appears to be the separation of clinical versus academic services. The authority and responsibility for physician activities rest primarily with the Chiefs and Medical Director. Service Chiefs and the Medical Director are responsible to the County. The matter of separating the academic service hours from clinical service hours was not an issue with the Chiefs and Medical Director. Drew responded to the agreement requirements as communicated by KDMC and the FJPOC. Drew time reporting systems and the hours reports were accepted by KDMC. The auditors have interpreted the agreement as a fixed cost-reimbursement contract, based on the number of residents and FTEs of service. KDMC did not administer the contract in this manner. Drew and KDMC, with communications to DHS, without concerns or objections by DHS, administered the agreement funds through the departments for the provision of services. Drew, as a result, was paid properly. KDMC approved and processed the payments to Drew. Drew accepted the payment and provided the services. The services were documented. All of the information was provided to and approved by DHS.

The report states that the auditors were not able to verify how Drew spent the funds. Drew is especially disappointed with this comment. Drew provided the audit staff with the names and amounts of all personnel that were paid with the agreement funds. Faculty expenditures were separated from staff expenditures. A worksheet was provided to the auditors that reconciled compensation totals, benefit amounts, and indirect costs. The costs were matched to the agreement totals. The audit staff tested a sample of 10 individuals. Source documents providing evidence to verify the information for all 10 of the selected samples were provided to the auditors.

The report comments on Neuroscience services and highlights that the costs were $921,000 even though the agreement provides $90,000. The report fails to indicate that this was discussed and agreed upon within the administrative provisions of the agreement. The FJPOC discussed the changes that were made to Addendum A for the contract year 2003. The agreement provided $626,000 for Neurosciences in 2000 and decreased the amount to $90,000 in 2003. DHS and KDMC discussed and agreed to Drew's allocation of funds for 2003. DHS

approved the transfer of funds to Neurosciences. This information was provided to the audit staff. The report states that Drew should keep records of the actual staffing hours provided by service area. Drew maintains individual timecards and hours per day. Drew provides KDMC with regular reports on service hours by service area. KDMC did not request hours to be separated between clinical and academic services. The report is not accurate in stating that Drew could not document the funding changes. The expenditure report provides information on Drew's allocation of funds. Funding changes are measured as the differences between the allocations in the agreement and the allocations by Drew. The suggestion that the increase in clinical Neuroscience services caused service reductions in other areas is without foundation. There is no evidence that other services were reduced. The auditors report that they were not able to determine the actual service levels Drew provided

The report compares the cost of Drew to H/UCLA. The report states that Drew is paid substantially more per resident than H/UCLA. While mathematically this may be true, it is misleading. The County, based on information DHS provided to Drew, does not have an agreement with H/UCLA, but rather, with The Regents of the University of California (UC). The UC agreement includes Olive View Medical Center (Olive View). Olive View and H/UCLA are both UC programs administered through UCLA. The agreement pays Olive View substantially more per resident than H/UCLA. Indeed, according to the 2000 agreement, the County paid Olive View and Drew the same amount per resident for academic services. The conclusion that Drew is more expensive than H/UCLA, is based on selective comparison. This is not objective auditing. The report does not place the comparison into the proper context. This information was provided to the auditors. A probable contributory reason Olive View and Drew are more expensive, may simply be economies of scale. Olive View and Drew are smaller programs than H/UCLA. The similar fixed cost elements among facilities that support larger programs are, by mathematical formula, less per resident.

The report states that Drew does not maintain sufficient records on the actual uses of the amounts paid by the County for the auditors to determine the reasons for the variances between Drew and H/UCLA. The issue is not in the use of funds by Drew, but in the funding formulas as determined by the County agreement. The differences among all the agreements in the manner in which the payment amounts are determined prevent any direct comparisons between institutional programs. The UC contract payment formulas are based on a different set of variables than Drew, or even, USC. The County pays UC for each resident and each faculty member. Drew receives no designated amounts for each resident or faculty member. The auditors could not determine the reason for the variances between Drew and UC because there are no comparative benchmarks. Drew informed the audit staff that there were major differences within the UC agreement, between Olive View and H/UCLA. The County pays Harbor $18,000 for each Program Director and pays Olive View $26,500 for each of their Program Directors. The County pays H/UCLA $800,000 for academic

infrastructure, which, according to the agreement, supports 418 residents. The County pays Olive View 50% more in total than H/UCLA, or $1,200,000, for academic infrastructure. However, Olive View has only one-third the number of residents, or 143. The County, using a mathematical approach similar to the auditor's comparison between Drew and H/UCLA, pays Olive View roughly 330% more per resident than H/UCLA for infrastructure. Both of the centers are part of the same UC agreement. Both of the programs are part of the same university. The issue is not the use of funds, but rather, the formulation of the agreement. This has been discussed with the audit staff. The UC and Drew agreements are not comparable to the USC agreement, again, because the funding formulas are not the same. To put things into perspective, the Harbor portion of the UC agreement doesn't even count the number of programs or residents, correctly.

The report states that the County salary and school stipend paid to some of the chairs are more than their counterparts at H/UCLA. Chair compensation is negotiated individually by the Chair with KDMC and Drew. The determination and approval processes involve the leadership of KDMC and Drew. As discussed with the auditors, this comment does not indicate that the KDMC/Drew Chairs are paid more in total compensation, from all sources, than their counterparts at H/UCLA. H/UCLA may have opportunities for their physicians to earn additional compensation through faculty practice or other venues.

The report states that 12 physicians exceeded the maximum allowed by the agreement. The statement is misleading. The statement is incorrect. The report does not recognize the roles of intent, interpretation and administration of the physician limits by Drew and KDMC. Audit staff have identified 12 physicians that exceed the 75th percentile limitation. The agreement does not indicate which compensation table is to be used. The Private Schools figures are different than the All Schools figures. Audit staff used projected survey figures, not actual. Using real figures, the number of physicians is not 12. It appears as if the report does not reflect the specialties within the Pediatrics service division. These matters would change the report, also. The agreement does not clearly indicate which earnings are subject to the limitation. The report states that KDMC management is not clear on the earnings limitation and may be including earnings that are outside of the agreement. The report states that the County, alone, pays four of the 12 physicians above the limit. The agreement states that the compensation limit does not apply to the physicians who were above the limit as of January 1, 1999. The agreement provides that the University may rely on information provided by County in meeting this obligation. Based on the actual figures, not the audit staff's projected figures, and the provisions of the agreement, Drew has been substantially compliant with the agreement.

The report states that the County is supposed to pay Drew for academic services based on the number of residents in each training program. This interpretation does not reflect the intention of the parties at the time the agreement was

developed and signed. The report states that the County paid Drew based on the agreement. Therefore, the payment was proper, as per the agreement.

The report states on Page 4 that the County is supposed to pay Drew for academic services based on the number of residents in each training program. KDMC paid for academic services based on the size of the programs in the agreement, not on the actual number of residents in the programs. The report repeats on Page 5 that Drew is supposed to be paid based on the number of residents in each program. This interpretation is not supported by the language of the agreement. On the contrary, the payment formulas in the Drew agreement indicate that the actual number of residents in each program is not materially significant. The agreement states that Drew will be paid $155,000 for each small program, regardless of the number of residents in the program. Drew receives $155,000 for one resident in Pediatrics Child Development. Drew receives $155,000, the same amount, for 10 residents in Orthopedics. Therefore, this suggests that the County is purchasing common and similar academic services which are relatively inflexible with respect to the number of residents. Large programs have been defined as programs with more than 15 residents. According to the Drew affiliation agreement, there are 18 residents in Anesthesiology. According to the agreement, there are 44 residents in Emergency Medicine. The County pays Drew $460,036 for each of these two large programs. Again, this indicates that larger programs may share common and similar costs, but that the costs of the larger programs are not directly proportional to the number of residents in the program. The threshold of 15 residents, which separates the small programs from the large programs, appears to be a negotiated figure. The UC agreement recognizes small, medium, and large programs, with numbers of residents that differ from Drew at each threshold. The County pays a per resident amount to UC for the H/UCLA and Olive View programs. According to the agreement, the County pays UC for fractional residents at Olive View. The audit report suggestion that the prior payments may not have been proper is based on flawed logic. The suggestion that DHS should seek reimbursement, if appropriate, is based on a false hypothesis. As Drew has worked closely with KDMC in the administration of the agreement, and has fully cooperated with information in the provision of services, the suggestion that KDMC may seek reimbursement is not appropriate. The report does not respect the offices, processes, systems, or individuals, which were responsible for the administration of the agreement.

Recommendations

The following are comments to the individual recommendations.

1. This is not a compliance matter with Drew. Drew concurs and will work to provide annual budgets and reports on the use of funds. Drew will report physician hours and maintain staff service records.

2. This is not a compliance matter with Drew. Drew concurs and agrees to maintain individual time records for physicians and staff.

3. Does not apply to Drew.

4. This is not a compliance matter with Drew. Drew concurs and will exchange physician compensation information with KDMC at least annually.

5. Drew disagrees with the findings. Drew will monitor physician total compensation according to the agreement.

6. Does not apply to Drew.

7. Does not apply to Drew.

8. Does not apply to Drew.

9. Drew disagrees with the findings. Drew will maintain records of clinical service staffing hours by service.

10. Does not apply to Drew.

11. This is not a compliance matter with Drew. Drew agrees that significant variances in clinical service staffing should be agreed upon in writing.

12. Drew agrees to participate in the establishment of performance measures.

Conclusion

The report clearly misses the mark on many of the critical issues. The evidence clearly demonstrates that the agreement was never intended to correlate payment for academic services to the actual number of residents. The evidence clearly demonstrates that the agreements are based on very different foundations, and therefore, cannot effectively be compared by arbitrary cost ratios or simple formulas. The report clearly demonstrates a lack of respect for the participants, structures, and processes, which were responsible for the development and administration of the affiliation agreement.

The recommendations clearly indicate that Drew was in substantial compliance with the agreement. Recommendations 1, 2, and 8, refer to the agreement, not to compliance. They suggest that DHS evaluate and enhance specific portions of the agreement. Recommendations 4, 6, 7, 10, and 11, refer to the administration of the agreement, not to compliance. The agreement provides for KDMC and Drew to work together through the FJPOC. All matters are to be discussed and administered through this venue. The recommendations provide direction to DHS

and KDMC in order for DHS and KDMC to more effectively administer the agreement. Recommendation 3 relates to the value, or efficiency, of the services purchased by the County. This is not a compliance issue. Due to the significant format differences among the County affiliation agreements with USC, UC, and Drew, it is difficult to perform meaningful comparisons. Again, there are major cost differences between H/UCLA and Olive View that should be reviewed by DHS, even though the two programs are part of the same affiliation agreement.

Recommendations 5, 9, and 12, address compliance issues that pertain to Drew. However, even these comments should be placed into the context of the FJPOC, which is the operational venue that administrates the agreement on behalf of the County. KDMC has indicated that the agreement is not clear with respect to overtime or other compensation. The agreement allows for physicians that were above the limits in 1999 to continue to be above the limits. The agreement states that this requirement shall be subject to the information provided by the County. Recommendation 4 addresses the sharing of information which will then provide Drew with the ability to more effectively monitor total physician salaries. Drew was not out of compliance with this provision of the agreement. Recommendation 9 directs Drew to keep records of the actual clinical service staffing hours. The report states that Drew does not maintain records of the actual staffing hours provided. The report does not recognize that volume of services information is shared between KDMC and Drew and discussed at the FJPOC. The report does not recognize that all clinical services, including those provided through the agreement with Drew, are administered by County personnel. The Chiefs and the Medical Director are responsible for all clinical services and they are County. The report fails to mention that detailed hours reports separating clinical hours from academic hours were not required under the current agreement. The report does recognize that Drew provided KDMC with hours reports by individual and by service. Drew was not out of compliance with this provision of the agreement. The report indicates that very limited progress has been made in the area of performance measures. Recommendation 12 directs DHS and Drew to develop and implement performance measures. The matter has been discussed on several occasions at the FJPOC and decisions have been documented in past meeting minutes. However, DHS and Drew have not fulfilled this provision of the agreement. The analysis of the recommendations and the review of the agreement clearly demonstrate that Drew was in substantial compliance with the agreement.

As Drew reflects on the purpose of the report, Drew understands that the comments were meant to be helpful, objective, and accurate. Unfortunately, much of the information was neither accurate nor objective. Drew will take the information and recommendations of the report, and use them to improve the provision of services, communication, and accountabilities.

Thank you.

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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J. TYLER McCAULEY
AUDITOR-CONTROLLER

September 13, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **DHS Affiliation Agreement with Drew University (Agenda Item 36)**

Item 36 on your Board's agenda for September 14, 2004 is a request from the Department of Health Services (DHS) to approve a new affiliation agreement with Charles Drew University (Drew) for academic and clinical services at King/Drew Medical Center.

On August 17, 2004, we issued an audit report on the current affiliation agreement with Drew. We have reviewed the proposed new agreement to determine whether it addresses the recommendations in our prior report.

Our review indicates that the proposed new affiliation agreement addresses most of the operational issues from our report and improves the controls over services received from and payments to Drew. For example, the new agreement requires Drew to provide timecards to document the services provided and pays Drew based on actual services provided.

In a few areas we plan to work with the parties to ensure the intent of the recommendations in the report is fully implemented. Specifically:

- We previously noted that DHS and Drew had made very limited progress in developing performance measures to evaluate Drew's services under the agreement. Addendum B of the proposed agreement includes a number of specific performance measures (e.g., resident scores on in-service exams and Board certification pass rates, etc.) to be used. We intend to evaluate Internal Reviews and other performance indicators and discuss with DHS and Drew any other specific qualitative and quantitative performance standards that will help to monitor Drew's performance under the contract.

- We also previously noted that Drew did not keep detailed records of how the agreement funds received from the County were used. The proposed agreement requires Drew to provide a budget and a report on how the funds were actually spent. But, the agreement does not indicate the specific detail Drew is required to provide. We will work with DHS and Drew to ensure that Drew provides the level of detail needed to allow the County to evaluate how amounts paid to Drew are used and compare the cost of Drew agreement to other affiliation agreements.

- Finally, our August 17 report noted that some prior payments to Drew may have been inaccurate (e.g., the County paid Drew for some programs based on inaccurate number of residents in the program, etc.) and recommended that DHS evaluate the prior payments to Drew and seek reimbursement if appropriate. We noted that the proposed affiliation agreement does not address the issue of prior payments to Drew. We will discuss this with DHS.

If you have any questions, please call.

JTM:MO:js

c: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., Director and Chief Medical Officer, DHS
Harry E. Douglas III, DPA, Interim President, Charles Drew University