



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 14, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

A handwritten signature in blue ink that reads "John Naimo".

**SUBJECT: DEPARTMENT OF HEALTH SERVICES HARBOR-UCLA MEDICAL
CENTER TRI-PARTITE AGREEMENT REVIEW**

We have completed a review of the Department of Health Services (DHS or Department) Harbor-UCLA Medical Center's (Harbor-UCLA or Hospital) Tri-Partite Agreement (Tri-Partite or Agreement) established in 1995 between the County of Los Angeles (County), Regents of the University of California, Los Angeles (UCLA or University), and Harbor-UCLA Medical Foundation, Inc. (MFI). Our review disclosed that DHS did not properly monitor compliance and enforce the provisions of the Agreement originally approved by the Board of Supervisors (Board). Furthermore, DHS did not take timely action to negotiate a replacement Agreement to recognize changes when UCLA discontinued participation in the Agreement in July 1999. This led to significant findings, which are described more fully in the Summary of Findings section.

The Agreement was established to allow MFI to conduct itemized physician component billing to create an additional financial resource to benefit Harbor-UCLA by supporting patient care, physician recruitment and retention, and education conducted on the Harbor-UCLA campus. Under the Agreement, MFI creates itemized invoices to bill and collect from Medicare, commercial health insurance, and workers' compensation insurance on behalf of the County for physician patient care services provided at Harbor-UCLA. Harbor-UCLA does not have the ability to bill physician patient care services on an itemized basis, which is generally required by most of these insurance providers. Associated hospital costs are billed and collected separately by either Harbor-UCLA or contracted vendors.

The Agreement provides that after Harbor-UCLA receives monetary payment for a portion of the cost of physician patient care services (i.e., physician inpatient and outpatient care costs), and processing costs (i.e., medical records, patient account administration, and space/support services costs), and MFI is reimbursed for their administrative expenses for billing and collection services, the remaining Tri-Partite funds are distributed to UCLA to supplement the salaries and benefits of faculty members providing patient care services at Harbor-UCLA, and to provide for the University's academic and educational programs at the Hospital. Specifically, Harbor-UCLA indicated that Tri-Partite funds are used for physician recruitment, County physician salary supplements (external to the County's Salary Ordinance), administrative support staff for medical departments, and services and supplies to benefit patient care and education on the Harbor-UCLA campus.

Our review is intended to ensure that Harbor-UCLA, UCLA, and MFI are in compliance with the terms and conditions of the Agreement. Our review included interviewing management and staff from each party, reviewing contract requirements for compliance, and validating cost methodologies used by Harbor-UCLA to determine physician patient care services and processing costs to invoice MFI for reimbursement. We also verified that Tri-Partite funds collected by MFI for Fiscal Years 2011-12 and 2012-13 were appropriately billed, collected, and disbursed.

In addition, we reviewed the role of the Harbor-UCLA Faculty Practice Plan, Inc. (FPP), which appears to have replaced the role of UCLA, in relation to the Agreement. The FPP, administered by MFI and governed by its own Board of Directors, is a professional corporation comprised of Harbor-UCLA physicians and/or UCLA faculty members who provide patient care services at Harbor-UCLA, within the Professional Building on the campus of the Hospital (i.e., private practice) and off-campus (e.g., expert witness testimony, consultations, etc.), and who may receive distributions from Tri-Partite funds.

Summary of Findings

Our review noted significant issues with the Agreement that require DHS' immediate attention. DHS needs to expedite assessment of the in-practice arrangement between Harbor-UCLA, MFI, and the FPP, to determine whether the existing relationship between the parties is necessary to DHS' operations, or can be terminated. DHS also needs to ensure that all existing arrangements within the Department that are similar to the Harbor-UCLA Agreement are brought to the attention of the Board, immediately assessed for necessity to Department operations, and formalized or terminated. The following highlights some of the significant issues we noted during our review.

- **The existing Tri-Partite arrangement between Harbor-UCLA, MFI, and the FPP is not supported by a Board approved contract. In addition, there is a similar arrangement at Rancho Los Amigos National Rehabilitation Center (Rancho Los Amigos) with Rancho Faculty Medical Associates, Inc.**

(RFMAI) that is also operating without a Board approved contract. RFMAI is a professional corporation comprised of physicians who provide patient care services at Rancho Los Amigos. RFMAI uses MFI to bill and collect from Medicare and insurance providers for physician patient care services at Rancho Los Amigos. The purpose of this arrangement is similar to the arrangement at Harbor-UCLA, which is to support patient care, physician recruitment and retention, and education on the Rancho Los Amigos campus. Unlike the Harbor-UCLA Agreement, Rancho Los Amigos receives only in-kind services (no monetary payment) from RFMAI for the County's cost of physician patient care services. After MFI is reimbursed for billing and collection services, the remaining funds are issued directly to RFMAI to distribute to the medical departments at Rancho Los Amigos, which use the funds for the benefit of Rancho Los Amigos including, but not limited to, supplementing the salaries (external to the County's Salary Ordinance) of County employed physicians providing patient care services at Rancho Los Amigos.

- **There may be a conflict of interest with DHS conducting business with an entity, such as the FPP, since County physicians who are also members of the FPP are receiving payments from the FPP that originate from Tri-Partite funds. There may also be potential conflicts with County physicians serving on the MFI and the FPP Boards of Directors, directing additional compensation to themselves, and/or possibly referring County patients to their private practice.** Some Harbor-UCLA physicians receive supplemental compensation (external to the County's Salary Ordinance) from Tri-Partite funds held within the FPP accounts. The supplemental compensation is provided at the discretion of Harbor-UCLA medical department chairs, who are also FPP members, some of whom serve on the respective MFI and/or FPP Boards of Directors, and who can also choose to supplement their own wages with the Tri-Partite funds. There is no formal authority, criteria, and approval process for distributions of Tri-Partite funds to the FPP, and no specification of when payments can be made to County employees. In addition, these County physicians can potentially refer County patients to their private practice on-campus in the Professional Building.
- **The FPP appears to have replaced UCLA's role in the Agreement, but there is no formal documentation to support the change.** UCLA has not participated in the Agreement since July 1999. As part of the 1995 Agreement, UCLA should receive all remaining Tri-Partite collections, after payments are made to Harbor-UCLA and MFI. However, from Harbor-UCLA's operating perspective, the FPP replaced the role of UCLA in the Agreement, and receives the remaining Tri-Partite collections. Although we noted DHS intended to formally end UCLA's involvement and responsibilities from the Agreement and renegotiate a replacement Agreement, our review noted that there is no

agreement established and approved by the Board to allow the FPP to replace UCLA, participate in the Agreement, and receive and distribute Tri-Partite funds.

- **DHS has not properly monitored compliance and enforced provisions of the Agreement, which resulted in some of the significant issues and deficiencies identified in our review.** DHS is responsible for ensuring that all parties comply with the terms and conditions of the Agreement. Our review noted that some in-kind services reported by MFI, in lieu of payment to cover Harbor-UCLA's physician patient care services costs and rent to the County, may not directly benefit the Hospital. We also noted that, although Harbor-UCLA annually adjusts physician patient care services invoice rates based on the Medicare Conversion Factor intended to approximate for annual inflation, Harbor-UCLA has not updated the physician patient care service rates, reimbursed through monetary payments and in-kind services by MFI, in over 20 years, resulting in the use of rates that currently do not cover Harbor-UCLA's actual costs. Harbor-UCLA has indicated that this is a result of not taking action to negotiate a replacement Agreement to recognize the changes in the physician patient care service rates. In addition, Harbor-UCLA is not ensuring that all physician patient care services referred to MFI have been billed and collected.

Details of these and other findings are included in the attached report (Attachment I).

Review of Report

We discussed the results of our review with DHS and Harbor-UCLA management, and County Counsel. DHS and Harbor-UCLA generally agree with our findings and recommendations. DHS' initial attached response, dated May 14, 2015 (Attachment II), indicated that the Department was in the process of terminating the Agreement and described corrective actions that were taken. On August 12, 2015, DHS provided the attached updated response (Attachment III), describing their proposed time frame to terminate the Agreement, address physician compensation issues, and transition from their reliance on services provided by the Agreement.

We thank DHS, Harbor-UCLA, County Counsel, UCLA, MFI, and FPP management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:JU

Attachments

c: Sachi A. Hamai, Interim Chief Executive Officer
Department of Health Services
Mitchell H. Katz, M.D., Director

Christina R. Ghaly, M.D., Deputy Director, Strategic Planning
Hal F. Yee, Jr., M.D., Ph.D., Medical Director
Anish Mahajan, M.D., Director, System Planning, Improvement & Data Analytics
Allan Wecker, Chief Financial Officer
Delvecchio Finley, Chief Executive Officer, Harbor-UCLA
Jorge Orozco, Chief Executive Officer, Rancho Los Amigos
Kathy Hanks, Director, Contracts & Grants Division
Tobi L. Moree, Chief, Audit & Compliance Division

County Counsel

Mary C. Wickham, Interim County Counsel
Anita D. Lee, Principal Deputy County Counsel
Patrick Ogawa, Acting Executive Officer, Board of Supervisors
Jonathan R. Hiatt, M.D., Vice Dean for Faculty, UCLA
Pamela Kluver, Chief Executive Officer, MFI
William W. Stringer, M.D., Board of Directors Chairman, FPP
Public Information Office
Audit Committee

**DEPARTMENT OF HEALTH SERVICES
HARBOR-UCLA MEDICAL CENTER TRI-PARTITE AGREEMENT REVIEW**

Background

In May 1995, the County of Los Angeles (County) entered into a Tri-Partite Agreement (Tri-Partite or Agreement) with the Regents of the University of California, Los Angeles (UCLA or University), and Harbor-UCLA Medical Foundation, Inc. (MFI), a non-profit organization governed by a Board of Directors. The Agreement replaced an earlier agreement between the parties. The Agreement was established to allow MFI to conduct itemized physician component billing to create an additional financial resource to benefit Harbor-UCLA Medical Center (Harbor-UCLA or Hospital) by supporting patient care, physician recruitment and retention, and education conducted on the Harbor-UCLA campus. Under the Agreement, MFI creates itemized invoices to bill and collect from Medicare, commercial health insurance, and workers' compensation insurance on behalf of the County for physician patient care services provided at Harbor-UCLA. Harbor-UCLA does not have the ability to bill physician patient care services on an itemized basis, which is generally required by most of these insurance providers.

The Agreement provides that after Harbor-UCLA receives monetary payment for a portion of the cost of physician patient care services (i.e., physician inpatient and outpatient care costs), and processing costs (i.e., medical records, patient account administration, and space/support services costs), and MFI is reimbursed for their administrative expenses for billing and collection services, the remaining Tri-Partite funds are distributed to UCLA to supplement the salaries and benefits of faculty members providing patient care services at Harbor-UCLA, and to provide for the University's academic and educational programs at the Hospital. Specifically, Harbor-UCLA indicated that Tri-Partite funds are used for physician recruitment, County physician salary supplements (external to the County's Salary Ordinance), administrative support staff for medical departments, and services and supplies to benefit patient care and education on the Harbor-UCLA campus.

Review Scope

We reviewed Harbor-UCLA's, UCLA's, and MFI's compliance with the terms and conditions of the Agreement. Our review included interviewing management and staff from each party, reviewing contract requirements for compliance, and validating cost methodologies used by Harbor-UCLA to determine physician patient care services and processing costs to invoice MFI for reimbursement. We also verified that Tri-Partite funds collected by MFI for Fiscal Years (FY) 2011-12 and 2012-13 were appropriately billed, collected, and disbursed.

In addition, we reviewed the role of the Faculty Practice Plan, Inc. (FPP), which appears to have replaced the role of UCLA, in relation to the Agreement. The FPP, administered

by MFI and governed by its own Board of Directors, is a professional corporation comprised of Harbor-UCLA physicians and/or UCLA faculty members who provide patient care services at Harbor-UCLA, within the Professional Building on the campus of the Hospital (i.e., private practice) and off-campus (e.g., expert witness testimony, consultations, etc.), and who may receive distributions from Tri-Partite funds.

Regents of the University of California, Los Angeles

UCLA has not participated in the Agreement, and has not received Tri-Partite collections since July 1999. Around the same period, MFI established the FPP professional medical group. From Harbor-UCLA's operating perspective, the FPP replaced the role of UCLA in the Agreement, and receives the remaining Tri-Partite collections after payments are made to Harbor-UCLA and MFI. From a contractual perspective, there is no Board of Supervisors (Board) approval of a tri-partite arrangement that includes the FPP.

The Department of Health services (DHS or Department) planned to terminate the Agreement and establish a direct contract between the County, MFI, and a physician practice group, without UCLA as a participant. We noted that the parties attempted to negotiate a new Tri-Partite in FY 2000-01, but failed to submit a formal agreement to the Board for approval. UCLA management indicated that it was their understanding that the Agreement ended when the new Affiliation Agreement between DHS and UCLA for academic and teaching services at Harbor-UCLA went into effect in July 1999. DHS could not provide documentation demonstrating the dissolution of the Agreement. DHS should work with County Counsel to formalize the dissolution of the 1995 Agreement.

We also identified an arrangement similar to the Harbor-UCLA Agreement, at Rancho Los Amigos National Rehabilitation Center (Rancho Los Amigos) with Rancho Faculty Medical Associates, Inc. (RFMAI). RFMAI is a professional corporation comprised of physicians who provide patient care services at Rancho Los Amigos. RFMAI uses MFI to bill and collect from Medicare and insurance providers for physician patient care services at Rancho Los Amigos. There is no County contract authorizing the billing arrangement, and unlike the Harbor-UCLA Agreement, Rancho Los Amigos receives in-kind services only (no monetary payments) from RFMAI for the County's cost of physician patient care services. After MFI is reimbursed for billing and collection services, the remaining funds are issued directly to RFMAI to distribute to the medical departments at Rancho Los Amigos, which are used for the benefit of Rancho Los Amigos, including but not limited to, supplementing the salaries (external to the County's Salary Ordinance) of County employed physicians providing patient care services at Rancho Los Amigos.

DHS management needs to ensure that all existing arrangements within DHS that are similar to the Harbor-UCLA Agreement are brought to the attention of the Board, immediately assessed for necessity to Department operations, and formalized or terminated.

Recommendations

Department of Health Services management:

1. **Work with County Counsel to formalize the dissolution of the 1995 Tri-Partite Agreement.**
2. **Expedite assessment of the in-practice arrangement between Harbor-UCLA Medical Center, Harbor-UCLA Medical Foundation, Inc., and the Faculty Practice Plan, Inc., to determine whether the existing relationship between the parties is necessary to the Department of Health Services' operations, or can be terminated. If the arrangement is deemed necessary, it should be formalized in a Board of Supervisors approved agreement.**
3. **Ensure all existing arrangements within the Department of Health Services that are similar to the Harbor-UCLA Tri-Partite Agreement are brought to the attention of the Board of Supervisors, immediately assessed for necessity to the Department of Health Services' operations, and formalized or terminated.**

Harbor-UCLA FPP

Tri-Partite Collections and Distributions

As previously mentioned, UCLA discontinued their participation in the Agreement in July 1999. The FPP operates as a replacement for UCLA's role in the 1995 Agreement, and receives the remaining Tri-Partite collections after payments are made to Harbor-UCLA and MFI. Table 1 below, identifies how funds were to be disbursed in the 1995 Agreement, and how funds have been distributed since 1999, when the FPP assumed UCLA's role. As indicated in Table 1, MFI allocates a majority of remaining Tri-Partite funds to the Harbor-UCLA medical departments and its Medical Director, and a portion to the Los Angeles BioMedical Research Institute (LA BioMed), a non-profit scientific research organization, which has an agreement with the County to administer research and education projects at Harbor-UCLA. As previously mentioned, there is no Board approved contract with the FPP, and there is no documentation that authorizes Tri-Partite funds to be provided to LA BioMed.

Table 1 Distribution of Tri-Partite Agreement Collections 1995 Agreement Requirements vs. In-Practice Arrangement	
1995 Agreement Requirements	In-Practice Arrangement
Tri-Partite Collections by MFI <ul style="list-style-type: none"> • Partially reimburse Harbor-UCLA for physician costs • Reimburse MFI for Administrative Expenses • Remaining Funds Distributed to UCLA 	Tri-Partite Collections by MFI <ul style="list-style-type: none"> • Partially Reimburse Harbor-UCLA for physician costs • Reimburse MFI for Administrative Expenses • Remaining Funds Distributed to the FPP <ul style="list-style-type: none"> - Allocation to LA BioMed - Allocation to Harbor-UCLA Medical Director - Allocation to Harbor-UCLA Medical Departments

In FYs 2011-12 and 2012-13, MFI collected approximately \$5.0 million annually from Medicare, commercial insurance, and worker's compensation insurance on behalf of the County for physician patient care services performed at Harbor-UCLA. The disbursement history of these collections is provided in Table 2.

Table 2 Tri-Partite Agreement Collections and Disbursements Fiscal Years 2011-12 and 2012-13			
	FY 2011-12	FY 2012-13	Disbursement Allocation
Total Tri-Partite Collections by MFI	\$ 4,955,120	\$ 4,980,031	
Tri-Partite Disbursements			
Reimbursements to Harbor-UCLA	\$ 428,637	\$ 440,544	9%
Reimbursements to MFI	1,850,718	1,850,269	37%
Payments to UCLA	-	-	
Payments to the FPP			
- LA BioMed	80,273	80,677	1.5%
- Harbor-UCLA Medical Director	80,273	80,677	1.5%
- Harbor-UCLA Medical Departments	2,515,219	2,527,864	51%
Total Tri-Partite Disbursements	\$ 4,955,120	\$ 4,980,031	

Harbor-UCLA received approximately \$429,000 and \$441,000 (9%) of collections annually in minimum monetary reimbursement from MFI in the respective fiscal years, as established by the Agreement. MFI retained approximately \$1.9 million (37%) of collections annually for administrative expenses for billing and collection services. After payments to Harbor-UCLA and MFI were made, MFI deposited approximately \$80,000 of Tri-Partite collections annually to the FPP accounts designated for LA BioMed, and an additional \$80,000 annually to the Harbor-UCLA Medical Director for discretionary use to support medical research and departmental activities, including payments to

physicians. The remaining collections of approximately \$2.5 million (51%) annually were then deposited to the FPP accounts established for each of the 12 medical departments at Harbor-UCLA to supplement County physicians' wages (external to the County's Salary Ordinance), and to support Harbor-UCLA's medical department programs, including their administration, recruitment, faculty enrichment, and education. These accounts are administered by MFI on behalf of the FPP, and are separate from County funds/records.

FPP Disbursements

MFI indicated that Harbor-UCLA medical department chairs are authorized to approve Tri-Partite fund disbursements, as they deem appropriate. We contacted the seven medical departments that authorized Tri-Partite fund disbursements to physicians in FY 2012-13 to determine their methodology for approving the disbursement of Tri-Partite funds to physicians, and noted the following:

- As of June 30, 2013, the balance of the FPP accounts totaled \$13.5 million. We were unable to determine the portion of this amount that relates to Tri-Partite funds because MFI commingles funds relating to the Tri-Partite, Professional Building on the campus of the Hospital (i.e., private practice), and off-campus activities (e.g., expert witness testimony, consultations, etc.), and does not maintain subsidiary records to distinguish the source or use of funds. In FYs 2011-12 and 2012-13, the FPP disbursed a total of \$3.6 million and \$3.7 million to physicians from the FPP accounts, which were approximately \$940,000 and \$1.0 million more than the approximately \$2.5 million in Tri-Partite collections MFI disbursed to the FPP for each of the two fiscal years.
- Methodologies used to distribute Tri-Partite collections to physicians differed between medical departments and were based on various factors, such as physician expertise, productivity, additional services, administrative responsibility, etc. In general, the medical department chairs did not document their justification for the distributions, and the payments were based on verbal agreements between department chairs and physicians.
- Medical department chairs are allowed to be members of the FPP Board of Directors, and have the discretion to pay themselves Tri-Partite funds, resulting in the appearance of a conflict of interest. We identified three medical department chairs who can authorize FPP payments, and received Tri-Partite disbursements in FY 2012-13.

DHS should work with County Counsel to determine if there is a conflict of interest in conducting business with an entity, such as the FPP, since County physicians who are also members of the FPP are receiving payments from the FPP that originate from Tri-Partite funds. We also noted that the Agreement is silent concerning authority for Harbor-UCLA medical department chairs to distribute Tri-Partite funds to themselves and/or their colleagues, and any definitive standards for the amount, timing, and

justification for these payments. The payments appear to be a continuation of a historic practice that has never been documented. In addition, County physicians serve on both the MFI and the FPP Boards of Directors, and have the ability to refer patients to their private practice on-campus in the Professional Building.

In addition, we noted that the medical departments use LA BioMed to procure services and supplies, which could be paid for using the distributions of the Tri-Partite funds. These purchases are not subject to County procurement policies and procedures, such as competitive bidding. Our review did not include a test of purchases made by LA BioMed using Tri-Partite funds. However, DHS should review the purchases made by LA BioMed, and determine whether the procurement function for the FPP using Tri-Partite funds should be handled by the County, and subject to County purchasing requirements.

Recommendations

Department of Health Services management:

- 4. Work with County Counsel to determine if there is a conflict of interest in the County conducting business with an entity, such as the Harbor-UCLA Faculty Practice Plan, Inc.**
- 5. Review purchases made by the Los Angeles BioMedical Research Institute to support Harbor-UCLA departments using Tri-Partite Agreement funds, and determine whether this procurement function should be handled by the County and be subject to County purchasing requirements.**

Harbor-UCLA Medical Center

Harbor-UCLA submits all necessary billing and financial information for patients with Medicare, commercial health insurance, and workers' compensation insurance to MFI to bill and collect for physician patient care services at the County. The Agreement requires MFI to make quarterly minimum monetary payments to Harbor-UCLA to partially cover physician patient care services costs. Harbor-UCLA's invoices and collections for FYs 2011-12 and 2012-13 are highlighted in Table 3, below.

Table 3		
Harbor-UCLA Invoices and Collections		
Fiscal Years 2011-12 and 2012-13		
	FY 2011-12	FY 2012-13
Harbor-UCLA Invoices to MFI		
Physician Patient Care Services	\$ 760,590	\$ 1,173,034
Medical Records Processing	-	-
Patient Account Administration	24,925	36,800
Hospital Space/Support Services	521,301	521,333
Total Invoiced by Harbor-UCLA	\$ 1,306,816	\$ 1,731,167
Harbor-UCLA Collections from MFI		
Monetary Payments		
Minimum Monetary Payment	\$ 400,918	\$ 400,918
Patient Account Administration	24,925	36,800
Hospital Space/Support Services	2,794	2,826
Total Cash Payments	\$ 428,637	\$ 440,544
In-Kind Services		
Physician Patient Care Services	\$ 359,672	\$ 772,116
Hospital Space/Support Services	518,507	518,507
Total In-Kind Services	\$ 878,179	\$ 1,290,623
Total Collected by Harbor-UCLA	\$ 1,306,816	\$ 1,731,167

In-Kind Services

In addition to the minimum required monetary payments to Harbor-UCLA, the Agreement allows MFI to satisfy invoiced amounts due for physician patient care services with in-kind services. In February 2011, the Board approved a five-year lease with MFI to occupy medical office space in the Professional Building on the Harbor-UCLA campus at an annual cost of \$519,000. The lease allows MFI to provide in-kind services in lieu of paying rent to the County.

The Agreement defines in-kind services as services, equipment, and supplies the County would have purchased or rented for the Hospital if MFI had not made the items available to the County. MFI and the FPP indicated that the in-kind services provided to Harbor-UCLA include payments made to the FPP physicians for additional services (e.g., lectures, training, etc.) that benefit the Hospital, and for physician recruitment and retention, including supplementing County physicians' compensation.

MFI claimed in-kind services of \$878,000 (67% of total invoice) and \$1.3 million (75% of total invoice) to cover Harbor-UCLA's FYs 2011-12 and 2012-13 remaining invoiced costs. Our review of MFI's in-kind services noted the following:

- Total in-kind services reported by MFI may be overstated, since MFI also claims services provided by the FPP physicians in the Professional Building (i.e., private practice) and off-campus (e.g., expert witness testimony, consultations, etc.). Although MFI reported \$3.7 million in total in-kind services in FY 2012-13, based on our discussions with the FPP medical departments, we noted that only approximately \$1.6 million was related to Tri-Partite collections, and claimable as in-kind by MFI. The FPP indicated that the remaining \$2.1 million was related to physician services in the Professional Building and off-campus, which do not qualify as in-kind services that benefit Harbor-UCLA. Harbor-UCLA has indicated that some of the \$2.1 million may be associated with prior year Tri-Partite collections. However, we were unable to verify this since subsidiary records are not maintained to distinguish the source or use of funds. It should be noted that the approximately \$1.6 million in claimable in-kind services in FY 2012-13 exceeded the \$1.3 million in remaining invoiced costs for the fiscal year.
- Harbor-UCLA indicated that it has been the Hospital's practice to validate the amounts paid to physicians, and verify the physicians work at Harbor-UCLA, as confirmation that the in-kind services claimed as payment to the County were actually and satisfactorily provided. However, Harbor-UCLA should also verify that in-kind services claimed as payment to the County are allowable and appropriately provided, since we noted that not all in-kind services claimed by MFI benefited the Hospital.

Invoices to MFI

Harbor-UCLA invoices MFI quarterly for physician patient care services and processing costs. We reviewed the rates and cost methodologies established by the Agreement, which were used by Harbor-UCLA in determining the invoiced costs for FYs 2011-12 and 2012-13. Physician patient care services costs invoiced by Harbor-UCLA to MFI for billing were properly supported by patient account records, and the rates applied by Harbor-UCLA were generally correct and appropriately adjusted annually, based on changes in the Medicare Conversion Factor published by the Centers for Medicare and Medicaid Services that is intended to approximate for annual inflation. However, we noted:

- Harbor-UCLA has not updated the physician patient care services rates, which are paid by MFI with monetary payment and in-kind services, to cover Harbor-UCLA's actual costs, as required by the Agreement. The rates used by Harbor-UCLA to invoice MFI in FYs 2011-12 and 2012-13 originated in FY 1991-92, and were increased annually only by the Medicare Conversion Factor. Based upon this methodology, Harbor-UCLA invoiced \$761,000 and \$1.2 million, respectively. However, Harbor-UCLA's actual cost of physician patient care services, based on Physician Time Study records for Medicare reporting for FYs 2011-12 and 2012-13, totaled \$2.1 million and \$3.6 million, respectively. As a result, Harbor-UCLA invoiced \$1.3 million and \$2.4 million less than if rates were updated to cover the actual costs for physician patient care services. The rates should be

reviewed annually, and updated to cover Harbor-UCLA's actual costs, as required by the Agreement. Harbor-UCLA has indicated that this is a result of not taking action to negotiate a replacement Agreement to recognize the changes in the physician patient care services rates.

Contract Monitoring

Harbor-UCLA completes the annual Foundation Activities Report on MFI certifying the benefit of MFI to the County. The report indicates that Harbor-UCLA provides oversight and monitors MFI's activities, services, and financial matters. However, we noted the following:

- Harbor-UCLA does not reconcile the accounts referred to MFI to ensure all accounts are billed and collected. In addition, MFI indicated that they do not maintain a historical record or notify Harbor-UCLA that accounts have not been billed. MFI indicated that accounts are unbillable if patient insurance information is inaccurate, the time limit to bill the accounts expired, and there is inadequate physician documentation. Harbor-UCLA indicated that MFI provides billing activity detail reports to Harbor-UCLA medical department chairs and works directly with the department chairs to address these deficiencies. However, Harbor-UCLA should reconcile the accounts referred to MFI to ensure that all accounts are billed and collected in order to effectively monitor MFI's billing services.
- Harbor-UCLA did not provide documentation that they reviewed and approved MFI's Tri-Partite annual budgets, which estimate MFI's revenue collections from insurance, payments to Harbor-UCLA, MFI's administrative expenses, and net payments to UCLA. MFI indicated that annual budgets were only approved by respective MFI and FPP Boards of Directors for FYs 2011-12 and 2012-13. However, the Agreement indicates that annual budgets are subject to review and approval by Harbor-UCLA and the University.
- Harbor-UCLA did not verify that MFI's Certified Public Accountant (CPA) performed an annual compliance review of the Agreement. As part of the annual audit of MFI's financial statements, MFI is required to have their CPA review its performance and verify compliance with the terms of the Agreement, including reviewing the accuracy and timeliness of MFI's payments to the County and University, and ensuring that MFI's administrative expenses comply with the provisions of the Agreement. However, our discussions with MFI's CPA and review of the CPA's Annual Report revealed that the CPA's review did not address MFI's performance and compliance with the Agreement.

DHS is responsible for ensuring all parties comply with the terms and conditions of the Agreement. Based on the significant issues and deficiencies related to contract monitoring identified above, it appears that DHS and Harbor-UCLA have not properly monitored compliance and enforced the provisions of the Agreement.

Itemized Billing for Physician Patient Care Services

The insurance providers billed under the Tri-Partite Agreement and the Medicare Program generally require the physician component of services to be billed on an itemized basis. Harbor-UCLA indicated that they use MFI to provide itemized billing services because the Hospital currently does not have the data collection mechanisms, expertise, and staffing necessary to prepare itemized physician patient care services claims.

On November 1, 2014, DHS implemented their new electronic health record system, the Online Real-Time Centralized Health Information Database (ORCHID) at Harbor-UCLA. DHS indicated that ORCHID will allow for the itemized billing and collection of physician patient care services. With the capability to itemize its billings, DHS should re-evaluate the need for contracted billing services and ancillary relationships that benefit from insurance collections, and determine if it is beneficial for the Department to itemize bill for physician patient care services using ORCHID.

Recommendation

- 6. Department of Health Services management re-evaluate the need for contracted billing services and ancillary relationships that benefit from insurance collections, and determine if it is beneficial for the Department to itemize its billing for physician patient care services using the Online Real-Time Centralized Health Information Database.**



May 14, 2015

**Los Angeles County
Board of Supervisors**

Hilda L. Solis
First District

Mark Ridley-Thomas
Second District

Sheila Kuehl
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

TO: John Naimo
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
for Director

**SUBJECT: DEPARTMENT OF HEALTH SERVICES
HARBOR-UCLA MEDICAL CENTER
TRI-PARTITE AGREEMENT REVIEW**

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
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We have completed our review of the Auditor-Controller's audit report concerning the Tri-Partite Agreement between the County of Los Angeles on behalf of Harbor-UCLA Medical Center (Harbor), Harbor-UCLA Medical Foundation, Inc. (MFI), and The Regents of the University of California (University). The Department of Health Services (DHS) generally concurs with the audit findings and recommendations contained in the report dated May 4, 2015. While DHS could have improved its compliance monitoring and enforcement of the Agreement, we believe there were mitigating circumstances during prior years, including complex regulatory requirements and other issues that impacted strict compliance with the terms of the Agreement and its modification in light of changed circumstances.

Consistent with your first set of recommendations, we have evaluated the relationship established by the Tri-Partite Agreement to determine whether it should continue. Based upon an assessment of the current legal requirements, the changing healthcare marketplace, and new technology available to DHS with the implementation of the Online Real-time Centralized Health Information Database (ORCHID) electronic health record, we have come to the conclusion that it is in the County's best interest to dissolve the Tri-Partite Agreement and end its related relationships. Accordingly, we will be requesting authority from the Board of Supervisors on June 2, 2015 to serve notice on the MFI and the University of the County's intent to terminate the Tri-Partite Agreement.

If authorized, termination of the Tri-Partite Agreement would be effective on October 1, 2015. Under general legal principles, the revenue generated through MFI's billing and collection efforts through that date should remain with the MFI and the Faculty Practice Plan that effectively replaced the University. However, counsel will work with Harbor, MFI and the Faculty Practice Plan to assure that, post termination, the proceeds of prior claiming are used fairly and properly to benefit Harbor programs. This may require the continued assistance from L.A. Biomed while alternative arrangements are being developed. Revenue received based on claims submitted by Harbor from October 1, 2015 and forward, irrespective of service date, will be retained by Harbor.

John Naimo
Auditor-Controller
May 14, 2015
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This revenue may be generated through a new physician billing arrangement with a different vendor, and/or by exercising the Medicare Part A election, which does not require itemized physician billing. Once all DHS facilities implement ORCHID, DHS will be positioned to determine the timeline to transition to internally generated itemized billing.

As recommended, we have also reviewed existing arrangements similar in nature to the Harbor-UCLA Tri-Partite Agreement and assessed them for necessity to DHS operations. One such relationship exists with the Rancho Faculty Medical Associates Inc. A letter has already been issued, notifying that organization that the existing relationship related to billing for physician services will end for clinical services provided on or before June 30, 2015. Rancho Faculty Medical Associates Inc. was given the option to complete the billing and collection of claims for services provided before July 1, 2015, or to return those claims to the County. Additionally, we will be requesting the Board's authority on the June 2, 2015 Agenda, to proceed with the termination of a fully executed agreement for MFI to conduct non-physician practitioner billing services on behalf of both Harbor and Rancho Los Amigos National Rehabilitation Center effective for clinical services provided after June 30, 2015. Both hospitals would like MFI to complete its billing and collection efforts for all non-physician practitioner services with dates of service on or before June 30, 2015, with payment remitted to each hospital, respectively.

Because DHS is terminating the relationships established in the Tri-Partite Agreement, it is not necessary to address the audit's other recommendations, or its comments regarding the deficiencies in contract monitoring.

If you have any questions, please let me know.

MHK:lr

c: Hal F. Yee, Jr., M.D., Ph.D.
Christina R. Ghaly, M.D.
Delvecchio Finley, MPP, FACHE
Jorge Orozco



August 12, 2015

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TO: John Naimo
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

**SUBJECT: DEPARTMENT OF HEALTH SERVICES (DHS)
HARBOR-UCLA MEDICAL CENTER (HARBOR-UCLA MC)
TRI-PARTITE AGREEMENT REVIEW**

Mitchell H. Katz, M.D.
Director

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We appreciate your May 4, 2015 audit report concerning Harbor-UCLA MC's Tri-Partite Agreement between L. A. County, Harbor-UCLA Medical Foundation, Inc. (MFI) and the University of California, Los Angeles (UCLA).

As we indicated in our prior response, this was a long standing problem, with complex legal and clinical implications, that has taken us some time to unravel and resolve. Since our May 14, 2015 response, DHS has taken the following actions to address the audit report:

- 1) We have identified a method of billing for physician services without the existence of the Tri-Partite Agreement. We will switch from Part B Medicare billing to Medicare Part A election.
- 2) We will ask the Board of Supervisors to terminate the Tri-Partite Agreement on February 1, 2016, to allow for the contractual mandate of 120 days advance notice.
- 3) DHS will concurrently, request Board approval of special step placements for fifty physicians that received compensation from the MFI during fiscal year 2014-15. This is necessary in order for Harbor-UCLA MC to continue providing mission critical services without interruption. DHS anticipates receipt of CEO Classification & Compensation's final recommendation on this request soon.
- 4) Harbor-UCLA MC is in discussions with the MFI/Faculty Practice Plan to assure that, post-termination, the proceeds of prior claiming, which are held by the Faculty Practice Plan, are used fairly and properly to benefit Harbor programs.

If you have any questions or need additional information, please let me know.

MHK:hy