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August 17, 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: **KING/DREW MEDICAL CENTER AFFILIATION AGREEMENT**

At the request of the Department of Health Services (DHS), we performed a review of the County's affiliation agreement with Charles R. Drew University of Medicine and Science's (Drew). Under the agreement, Drew provides teaching (academic) services to County physician trainees (residents) and direct patient care (clinical) services at Martin Luther King, Jr./Drew Medical Center (KDMC) and two ambulatory care facilities. The County pays Drew approximately \$13.6 million a year for these services, including \$9.9 million for academic services and \$3.7 million for clinical services.

The purpose of the review was to determine whether Drew was being paid properly for services required under the agreement. We also compared the cost of the Drew agreement to the County's affiliation agreement with UCLA at Harbor/UCLA Medical Center (H/UCLA) and reviewed Drew's physician compensation for compliance with the agreement.

Review Summary

Neither Drew nor KDMC maintains sufficient records, such as the actual number of staff hours provided or the number of residents in the training programs, to monitor the agreement and evaluate if Drew is being paid properly under the agreement. Drew also does not maintain separate records of how the agreement funds are spent. Accordingly, we were not able to independently verify whether Drew was paid properly or how Drew spent the funds paid by the County.

Based on the total contract cost for academic services and DHS' estimated County support costs, and the number of residents identified in the agreements for Fiscal Year 2003-04, it appears that Drew is paid approximately 57% more per resident for academic services than the cost per resident at H/UCLA. DHS is currently conducting a detailed evaluation of the cost per resident among the Department's facilities.

We also noted that the total County salary and school stipend compensation paid to some of the Department chairs at Drew is significantly more than their counterparts at H/UCLA. Our review also indicated that some Drew physicians are paid more than the maximum amounts allowed by the agreement.

Further, we noted that DHS is paying both UCLA and Drew for operating the Cardiology and Nephrology training programs. However, the programs are only accredited through UCLA. We are recommending that DHS evaluate the amounts paid to Drew and UCLA for these two programs because the County is paying Drew the same amount for these programs as Drew is paid for operating fully accredited training programs.

Details of these and other issues, along with recommendations for corrective action are included in the attached report.

Review of Report

We discussed our report with DHS and Drew management. DHS indicated agreement with our findings and recommendations. In accordance with Board policy, DHS will issue a detailed response to our report within 30 days. Drew University has also indicated that they will issue a response to our report.

If you have any questions, please contact me or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:js
Attachment

- 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 Drew University
 - Harry E. Douglas III, DPA, Interim President
 - Ron Lau, Ed.D., MBA, Vice President and CFO
 - UCLA
 - Thomas Rosenthal, M.D.
 - Violet Varona-Lukens, Executive Officer
 - Public Information Office
 - Audit Committee (6)

**Department of Health Services
King/Drew Medical Center Affiliation Agreement**

BACKGROUND

The Department of Health Services (DHS) has an affiliation agreement (agreement) with the Charles R. Drew University of Medicine and Science (Drew) for Drew to provide medical teaching (academic) services for County physician trainees (residents) and to provide direct patient care (clinical) services at Martin Luther King, Jr./Drew Medical Center (KDMC) and Hubert H. Humphrey Comprehensive Health Center. The County pays Drew approximately \$13.6 million a year for these services, including \$9.9 million for teaching services and \$3.7 million for clinical services. Most physicians who provide academic and/or clinical services under the agreement are County employees who also work for Drew. The physicians receive a salary from the County and a stipend from Drew. The stipends are funded from the affiliation agreement payments to Drew.

At DHS' request, we performed an audit of the County's affiliation agreement with Drew University. The purpose of our review was to determine whether Drew was being paid properly for the services required under the agreement. We also compared the cost of the Drew agreement to the County's affiliation agreement with UCLA at Harbor/UCLA Medical Center (H/UCLA), and reviewed Drew's physician compensation from the County and Drew for compliance with the agreement.

The review included interviews with staff and management and medical staff from both KDMC and H/UCLA and both schools, as well as analysis of available documentation.

COMMENTS AND RECOMMENDATIONS

Summary

Neither KDMC nor Drew maintains sufficient records to evaluate whether Drew is being compensated in accordance with the agreement terms. Necessary information such as actual number of hours of academic and clinical service provided and the number of residents in each training program are not adequately maintained to monitor the agreement. In addition, Drew does not maintain separate records indicating how agreement funds are spent. Accordingly, we were not able to independently verify whether Drew was paid properly or how Drew spent the funds paid by the County.

We were able to determine that Drew is paid approximately 57% more per resident for teaching services than it costs per resident at H/UCLA. Our comparison was based on the Fiscal Year (FY) 2003-04 total contract cost for academic services, plus the estimated County academic support costs at H/UCLA (e.g., medical library costs, etc.), divided by the number of residents identified in the FY 2003-04 agreements.

DHS is currently evaluating the cost per resident among the Department's facilities in greater detail. If DHS computes the cost per resident using different costs or numbers of residents, the variance between Drew and UCLA will differ. However, our review of

DHS' preliminary analysis supports our conclusion that Drew is paid significantly more per resident than UCLA.

Further, we also noted that the total County salaries and Drew University stipends paid to Department chairs at KDMC is substantially more than their counterparts at H/UCLA. Some Drew staff are also being paid more than the amounts allowed by the agreement.

For the Cardiology and Nephrology programs, we noted that DHS is paying both UCLA and Drew for operating the training programs. Since the programs are only accredited through UCLA, we are recommending that DHS evaluate the amounts paid to Drew and UCLA for these two programs because the County is paying Drew the same amount as Drew is paid for fully accredited programs.

The following are the detailed results of our review.

Agreement Payment Comparison

As noted, Drew provides both academic and clinical services at KDMC. At H/UCLA, UCLA only provides academic services. A comparison of the FY 2003-04 total agreement cost for academic services plus the estimated County academic support costs at H/UCLA divided by the number of residents in the FY 2003-04 agreements disclosed a significant variance between the amount paid to Drew per resident and the cost per resident at H/UCLA. Drew was paid \$29,468 per resident, which is \$10,645 or 57% a year more than the \$18,823 it costs per resident at H/UCLA.

Drew does not maintain sufficient records on the actual number of hours worked by Drew staff at KDMC or the actual uses of the amounts paid by the County for us to determine the reasons for the variance. Drew management indicated that they maintain records of hours provided by physicians under the agreement. However, these records do not distinguish between academic and clinical services. In addition, non-physician staff do not maintain time records for agreement-related hours provided.

We also attempted to compare physician compensation, County salary plus school stipend, between the two facilities and generally found similar limitations. We were able to compare the total County compensation paid to eight KDMC medical department chairs to the equivalent chairs at H/UCLA and noted that that the KDMC chairs received an average of \$65,200 (31%) more than their H/UCLA counterparts.

In order to ensure the County pays appropriate rates and that the funds are actually used for their intended purpose, DHS should require Drew and the other schools with which it has agreements to submit detailed annual budgets for the use of agreement funds. The schools should also be required to maintain detailed records of the actual use of the funds, including the number of hours worked for all staff (e.g., physicians and other staff) providing services under the agreements documented by individual timecards or some agreed upon equivalent record that is monitored on a contemporaneous basis. We noted that the current agreement does not require detailed cost accounting records from the schools. Therefore, these requirements

should be incorporated into the agreement and DHS should only compensate Drew for services and other costs documented in this manner. DHS should also evaluate the difference in cost per resident between Drew and UCLA and the difference in department chair compensation at KDMC and H/UCLA. DHS should then determine whether the differences are reasonable or if they indicate opportunities for cost savings.

Recommendations

- 1. DHS modify the agreements to require Drew and other medical schools to submit detailed annual budgets for the use of agreement funds, and maintain detailed records of the actual use of agreement funds, including the number of hours worked by physicians and other staff providing services under the agreements.**
- 2. DHS modify the agreements to require Drew to maintain individual timecards for physicians and other staff or some agreed upon equivalent time records, regularly monitor services provided by Drew, and only compensate Drew under the agreement for services documented in this manner.**
- 3. DHS evaluate the difference in the cost per resident between Drew and UCLA and the differences in department chair compensation between KDMC and H/UCLA, and determine whether the differences are reasonable or if they indicate opportunities for cost savings.**

Physician Compensation Limits

Most of the physicians who provide academic teaching services under the agreement receive both County salaries and a stipend from Drew. The agreement requires Drew to monitor to ensure that each physician's total compensation from both their County salary and Drew stipend does not exceed the 75th percentile of the Association of American Medical Colleges' (AAMC) national salary schedule for the physician's academic rank and medical specialty.

We reviewed the total amounts paid to each physician from the County and Drew for FY 2002-03 and noted that 12 of the 171 physicians (7%) exceeded the maximum allowed under the agreement. These physicians were paid an average of \$20,400 per year more than the maximum. It should be noted that for four of the 12 physicians, their County salaries alone exceed the 75th percentile limitation. However, the Drew stipends resulted in the physicians' salaries further exceeding the agreement limit.

In addition, three of the 12 physicians appear to have exceeded the maximum because of overtime earnings from the County. The agreement does not indicate whether overtime pay is to be considered in computing the maximum compensation. KDMC management also indicated that the County physician earnings could include payments

for overtime and other responsibilities that physicians perform outside the agreement. However, the County salary information provided by DHS includes only total County compensation and KDMC could not document any salaries or overtime earned for non-agreement related services.

Drew management indicated that they do not regularly monitor the physicians' total compensation to ensure the physicians' compensation complies with agreement because KDMC does not send them the County salary information timely. To ensure compliance with the physician salary limits, DHS should ensure that KDMC exchanges physician salary/stipend information under the agreement with Drew at least annually. Where necessary, the salary information should distinguish between agreement and non-agreement related earnings. DHS should then require Drew to monitor to ensure that physicians' total compensation does not exceed the 75th percentile of the AAMC salary schedules.

Recommendations

- 4. DHS management ensure that KDMC exchanges physician salary/stipend information with Drew at least annually, and that the salary information distinguishes between agreement and non-agreement related earnings.**
- 5. DHS management require Drew to monitor to ensure that physicians' total compensation does not exceed the agreement maximum.**

Payment for Academic Services

The County is supposed to pay Drew for academic services based on the number of residents in each medical training program (e.g., medicine, surgery, etc.) The agreement indicates that Drew will be paid \$155,000 a year for each of the 17 "small programs" with 15 or fewer residents listed in the contract, and \$460,036 a year for each of the nine "large programs" with 16 or more residents.

We attempted to determine whether the County had paid Drew properly based on the size of the teaching programs. However, prior to FY 2003-04, KDMC and Drew did not have centralized records on the number of residents in each of the 26 training programs. While Drew management indicated that each program maintained independent residency records, Drew did not have the records readily available for our review. Therefore, we could not verify whether payments to Drew were appropriate prior to FY 2003-04. We did note that KDMC and Drew did not reconcile the number of residents in each training program to the agreement. As a result, the County paid Drew based on the size of the program indicated in the agreement and not on the actual number of residents in the programs.

In FY 2003-04, KDMC and Drew began centrally tracking the number of residents enrolled in most training programs. However, we noted that KDMC and Drew still do not maintain central records or monitor the number of residents in the General Practice Dentistry, Oral and Maxillofacial Surgery or each of the six specialized pediatric

programs in the agreement. KDMC pays Drew for these programs based on the size of programs listed in the agreement, not on the actual number of residents in the programs.

For programs where records were available, we compared the number of residents in each program indicated in the agreement to the actual number of residents enrolled in each program and noted the following exceptions:

- Drew is paid the large program amount for the Obstetrics-Gynecology program, which requires at least 16 residents. KDMC's records indicate that only 14 residents are enrolled in the program.
- The agreement indicates that Drew will be paid the small program rate of \$155,000 for the Pediatrics Ambulatory Care program even though the agreement states that there are no residents enrolled in the program.
- Drew is paid the small program rate for the Nephrology and Cardiology programs. UCLA is also paid for operating these programs as part of the Olive View teaching program. Five Olive View/UCLA residents, two in Cardiology and three in Nephrology, spend part of their training time at KDMC. While Drew does provide academic services for these programs when the residents are at KDMC, the programs are only accredited through UCLA. DHS management indicated that program payments are supposed to be based on the costs of fully operating an accredited program.

Because payments to Drew for academic services are supposed to be based on the number of residents enrolled in each program, KDMC needs to monitor the number of residents enrolled in each training program and ensure the payments to Drew are appropriate. KDMC should also determine the number of residents enrolled in the programs in the past and evaluate whether the prior payments to Drew were proper and seek reimbursement if appropriate. In addition, DHS should evaluate the amount paid to Drew and UCLA for the Nephrology and Cardiology programs since the programs are accredited only through UCLA, but the County is paying Drew for a fully accredited program.

Recommendations

- 6. KDMC management monitor the number of residents enrolled in each training program, and ensure that the payments to Drew are appropriate based on the number of residents.**
- 7. KDMC management determine the number of residents enrolled in the training programs in the past, evaluate the prior payments to Drew, and seek reimbursement if appropriate.**
- 8. DHS management evaluate the amounts paid to Drew and UCLA for the Nephrology and Cardiology programs.**

Clinical Services

Under the affiliation agreement, Drew is supposed to provide 25.5 physician Full-Time Equivalent (FTE) staff and 2 non-physician FTEs for direct patient care (clinical services). The County pays Drew approximately \$3.7 million a year for clinical services.

Drew does not maintain records of the actual staffing hours provided and KDMC does not monitor the actual staffing levels. Such records and monitoring are necessary to help ensure the County is receiving the services for which it is paying and to properly oversee the operations of the facility. We noted at least one instance where a significant staffing variance is occurring. The agreement requires Drew to provide one-half a FTE for clinical Neuroscience services at a cost of \$90,000 a year. However, Drew's records indicate that they are actually providing two full-time and eight part-time Neuroscience clinical staff at a cost of \$921,000. Neither Drew nor KDMC could document what service reductions in other areas or other funding changes were made to finance this variance.

In order to ensure the County is receiving the services for which it is paying and to properly manage the operation of the facility, Drew should keep records of the actual staffing hours provided by service area and KDMC should monitor for compliance with the agreement terms. Any significant variances should be agreed upon by both parties in writing as formal agreement amendments.

Recommendations

- 9. KDMC require Drew to keep records of the actual clinical service staffing hours provided by service area.**
- 10. KDMC monitor for compliance with the agreement clinical service staffing requirements.**
- 11. KDMC and DHS ensure that any significant variances in clinical service staffing are agreed upon by both parties in writing as formal agreement amendments.**

Performance Measures

The agreement requires KDMC and Drew to establish a workgroup to develop performance measures to evaluate Drew's services under the agreement. The workgroup was supposed to have been started in FY 2001-02. We observed that KDMC and Drew have made very limited progress in developing performance measures.

Based on the recent accreditation issues with two of Drew's teaching programs, DHS and Drew should establish and implement a formal timetable to agree on and implement

measures to evaluate Drew's performance under the Agreement and monitor for compliance.

Recommendation

- 12. DHS and Drew establish and implement a formal timetable to develop and implement performance measures to evaluate Drew's performance under the agreement and monitor for compliance.**