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January 30, 2014

2013-111

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor (state auditor) presents this audit report concerning the finances and compensation practices of the University of California Los Angeles (UCLA) and the University of California San Francisco (UCSF) medical centers.

This report concludes that UCLA and UCSF medical centers experienced positive financial growth from fiscal years 2008–09 through 2012–13. UCLA Medical Center’s net position, or net assets, increased from \$1.3 billion to \$1.9 billion and UCSF Medical Center’s grew from \$761 million to \$1.3 billion. During this period, the medical centers transferred money each year to their campuses’ schools of medicine to provide financial support for strategic programs and faculty physicians at the respective schools of medicine. The amounts of the transfers rose over the five-year period, nearly doubling at UCSF Medical Center and nearly tripling at UCLA Medical Center. While these transfers appeared to be for valid purposes, we found there was too little transparency regarding the purposes of the transfers. Without more information about these transfers, university leaders, legislators, and other stakeholders lack useful information about each medical center’s financial situation.

In addition, we found that UCLA and UCSF medical centers complied with applicable policies for approving compensation increases, but that they generally provided their executives higher total compensation than did their counterparts at the University of California’s (university) other medical centers. We also found that although UCLA and UCSF medical centers experienced changes in staffing levels, key measures of patient-care quality at the medical centers remained stable. Moreover, patient satisfaction improved at both medical centers during these years. Further, although these two medical centers reported less charity care from fiscal years 2008–09 through 2011–12 than did the other university medical centers, they met the State’s limited requirements concerning charity care.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Contents

Summary	1
Introduction	5
Audit Results	
The University of California Los Angeles and University of California San Francisco Medical Centers Were Financially Sound Between Fiscal Years 2008–09 and 2012–13	11
UCLA and UCSF Medical Centers Do Not Report Enough Information About the Support They Provide to Their Respective Schools of Medicine	15
The Financial Performance of UCLA and UCSF Medical Centers Does Not Correlate Directly With Measures of Their Patient Caseloads	18
UCLA and UCSF Medical Centers Complied With Applicable Policies for Approving Compensation Increases	21
Executives at UCLA and UCSF Medical Centers Generally Received Higher Total Compensation Than Did Their Counterparts at the University's Other Medical Centers	23
UCLA and UCSF Medical Centers Increased Their Proportions of Employees Who Received More Than \$200,000 in Compensation Annually	25
Although the Two Medical Centers Experienced Changes in Staffing Levels, Key Quality of Patient Care Measures Remained Stable	28
UCLA and UCSF Medical Centers Meet the Limited State Requirements Concerning Charity Care	34
Recommendation	37
Response to the Audit	
University of California Office of the President	39

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Summary

Results in Brief

In providing health care services, the five medical centers within the University of California (university) generate significant revenue each year. The university medical centers use their revenues partly to support programs on their respective campuses, including the medical schools that educate future health care providers. From fiscal years 2008–09 through 2012–13, the two medical centers that were the focus of this audit—the University of California Los Angeles Medical Center (UCLA Medical Center) and the University of California San Francisco Medical Center (UCSF Medical Center)—experienced positive growth in their net positions while key quality of patient care measures remained stable. In addition, UCLA and UCSF medical centers generally offered higher executive compensation than did the university’s three other medical centers, and they generally had higher proportions of employees who earned \$200,000 or more annually primarily because of labor market trends in the two medical centers’ geographic locations. Despite these expenditures, UCLA Medical Center’s net position increased from \$1.3 billion to \$1.9 billion, and UCSF Medical Center’s net position grew from \$761 million to \$1.3 billion. These assets remained within the university system because the medical centers are part of campuses within the university and the university has the authority under the state constitution to use its funds as it deems appropriate to fulfill its educational mission.

Both medical centers appear to have transferred portions of their revenues appropriately to other departments on their campuses. However, although the medical centers’ reporting practices complied with current university policy, they provided too little transparency about the transfers’ specific purposes. The amounts of the two medical centers’ transfers rose over the five-year period under review, nearly doubling at UCSF Medical Center and nearly tripling at UCLA Medical Center. Apparently, these increases occurred in part because UCLA and UCSF medical centers’ respective schools of medicine experienced growing financial needs as the years progressed. Most transfers provided salary support for faculty physicians from the schools of medicine or funding for strategic programs, and these purposes appear valid. Nonetheless, the two medical centers’ financial reports lack specificity about the reasons for these transfers of millions of dollars, and the university does not otherwise report details of these transfers. Without detailed explanations of these transfers, not only does the university’s governing authority, the University of California Board of Regents (regents), remain underinformed about the university health system’s monetary needs, but

Audit Highlights . . .

Our review of the revenues and expenditures at the University of California Los Angeles (UCLA) and the University of California San Francisco (UCSF) medical centers highlighted the following:

» *Both medical centers’ net position increased over a five-year period despite:*

- *Experiencing growth in their expenditures.*
- *Generally offering higher executive compensation than the University of California’s three other medical centers.*
- *Increasing their financial support through transfers for other departments on their campuses—the amounts nearly doubled at UCSF Medical Center and nearly tripled at UCLA Medical Center.*

» *The medical centers provided too little transparency about the purpose of transfers of their revenue to other departments on their campuses.*

» *The medical centers depend almost entirely on patient revenue to cover their financial obligations while salaries and wages represent both medical centers’ largest category of expenditure.*

» *Key measures concerning quality of patient care at UCLA and UCSF medical centers have remained stable between fiscal years 2008–09 and 2011–12 despite staffing level changes.*

legislators, university employees, university students, potential donors, taxpayers, and other interested individuals also lack useful information about each medical center's financial situation.

The medical centers depend almost entirely on patient revenue to cover their financial obligations. Patient revenue constituted almost all of UCLA and UCSF medical centers' total operating revenue between fiscal years 2008–09 and 2012–13. For example, in fiscal year 2012–13, UCLA Medical Center's patient revenue of \$1.8 billion constituted 96 percent of its total operating revenue, and UCSF Medical Center's patient revenue of \$2.1 billion constituted 97 percent of total operating revenue. Salaries and wages represented both medical centers' largest category of expenditure, and salaries and wages grew by about 20 percent at both centers from fiscal year 2008–09 to fiscal year 2012–13. In the final fiscal year we reviewed, UCSF Medical Center spent \$773 million on salaries, while UCLA Medical Center spent \$744 million. However, payments for employee benefits, such as retirement plans and health insurance, grew at faster rates over the five-year period—more than 70 percent for each medical center—rising to \$224 million at UCSF Medical Center and \$239 million at UCLA Medical Center.

Between 2009 and 2012, UCLA and UCSF medical centers generally provided higher total compensation for executive employees, such as their chief executive officers, than did the other three university medical centers primarily because of UCLA and UCSF medical centers' perceived need to pay salaries comparable to those offered at other top national hospitals.¹ However, nonexecutive staff—a category of employees that includes nurses and pharmacists—did not always receive higher compensation than their counterparts at the other three medical centers. Additionally, the proportion of a medical center's total number of employees who each earned more than \$200,000 annually varied by employee classification across the five university campuses. For example, UCSF Medical Center consistently employed more nurses who each earned more than \$200,000 annually than did the other university medical centers, but University of California Irvine Medical Center had the highest proportion of managers earning more than \$200,000 each.

Although employee compensation was not uniform across the medical centers, UCLA and UCSF medical centers' administrations followed policies for approving compensation increases, thus indicating that the medical centers use their compensation

¹ Some data that the California State Auditor reviewed for this report were available only on a fiscal-year basis, while we reviewed other data on a calendar-year basis. Throughout this report, when we do not state that we reviewed fiscal-year data, we instead reviewed data in calendar-year form.

funds appropriately. These policies require that medical center employees' salaries be set within specific ranges established by the regents and by the medical centers themselves, and that the medical centers comply with this requirement. Employees can also earn augmentations to their base pay, such as incentive payments, as long as the augmentations receive proper approvals. Our review of a selection of 20 employee files at UCLA and UCSF medical centers found that the files contained evidence of necessary approvals for salary changes and incentive payments.

Key measures concerning quality of patient care at UCLA and UCSF medical centers have remained stable between fiscal years 2008–09 and 2011–12 despite staffing level changes. During these four years, overall staffing levels at UCSF Medical Center increased moderately and at UCLA Medical Center remained relatively flat, while staffing levels for management positions rose at both medical centers. At the same time, federal measures of patient-care quality, such as the volume of pneumonia deaths and readmission rates, remained steady at both medical centers. Moreover, patient satisfaction at both medical centers improved during these years.

Not only did UCLA and UCSF medical centers comply with policies for establishing compensation rates and maintain stability in the quality of their patient care during fiscal years 2008–09 through 2012–13, both medical centers also followed state requirements for reporting their activities concerning the provision of charity care, which is free or discounted health care to certain patients. However, between fiscal years 2008–09 and 2011–12, UCLA and UCSF medical centers reported less charity care as a percentage of their operating expenses than did the other three university medical centers and several other medical facilities outside of the university system that we considered for comparison purposes. Disparities in reported charity care among the university's medical centers may reflect differences in the patient populations they serve.

Recommendation

The university should take steps to increase the transparency of its campuses' health system support transfers. Specifically, the university should establish a process ensuring that it annually issues a report through its Web site that is available to the public and describes the financial and programmatic impact of each campus's health system support transfers.

Agency Response

The university's Office of the President stated that the university accepts our recommendation, and commits to an action plan that will include issuance of an annual disclosure to fulfill the recommendation.

Introduction

Background

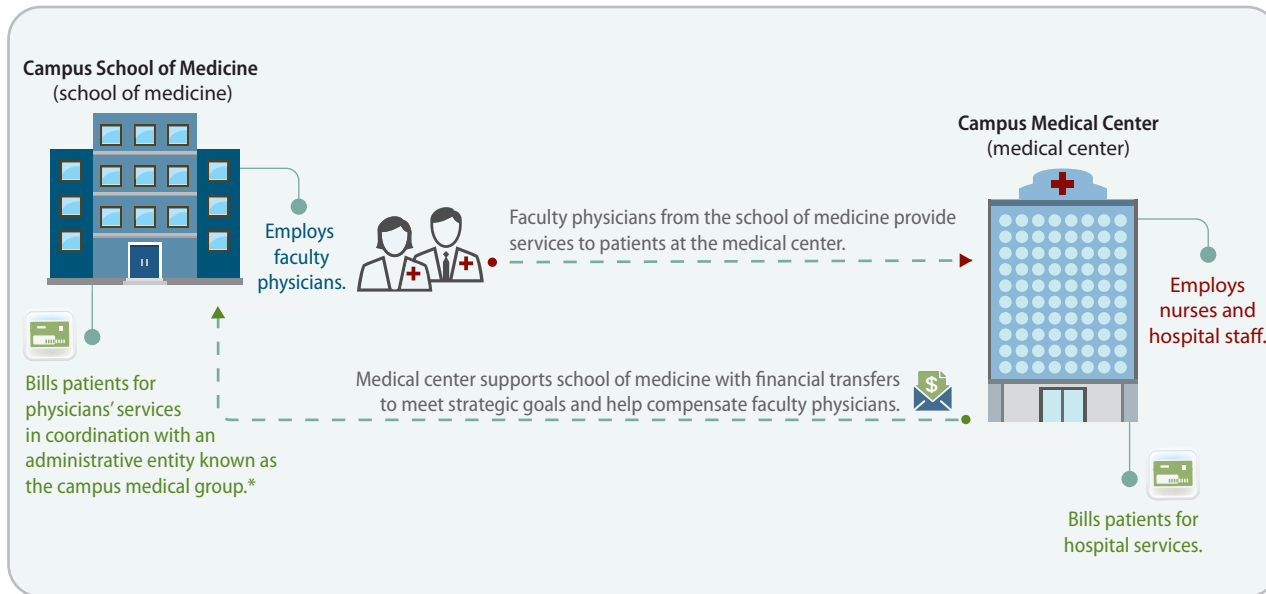
The University of California (university) has five medical centers that serve to educate future health care providers, conduct medical research, and provide a wide variety of health care services. They provide many different types of care, including primary and preventive care as well as treatment of severe illnesses. The medical centers are state-licensed and federally certified health care facilities, and they are subject to regulation by numerous agencies. The medical centers annually report various types of data, such as financial information, staffing information, and charity care data, to the California Office of Statewide Health Planning and Development.

The University of California Los Angeles Medical Center (UCLA Medical Center) and the University of California San Francisco Medical Center (UCSF Medical Center) are well known for the quality and complexity of patient care services they provide.² The 2013 *U.S. News and World Report* hospital rankings rate UCLA Medical Center as the fifth-best hospital in America and UCSF Medical Center as the seventh-best. Only one other hospital in California—Cedars-Sinai, a nonprofit hospital in Los Angeles, rated 13th—is among the top 15 in these national rankings.

Throughout the United States, academic medical centers based at universities, such as those at the university, rely on their campuses' schools of medicine to assist them in providing patient care. The physicians who provide care at the medical centers are medical school faculty, not medical center employees. To support their delivery of patient care, the medical centers compensate the schools' physicians-in-training in their roles as residents. These residents receive their training as they help faculty physicians care for patients. The faculty physicians join administrative entities called medical groups to facilitate their billing of patients—which occurs separately from the billing the medical center performs for the services its personnel provide. Figure 1 on the following page illustrates the relationships among UCLA Medical Center, UCSF Medical Center, and other campus health entities.

² UCLA Medical Center includes Ronald Reagan UCLA Medical Center, Santa Monica UCLA Medical Center and Orthopaedic Hospital, and Resnick Neuropsychiatric Hospital at UCLA.

Figure 1
Key Relationships Among University of California Los Angeles and University of California San Francisco Medical Centers and Other Campus Health Entities



Source: California State Auditor's analysis of various materials describing academic medical centers.

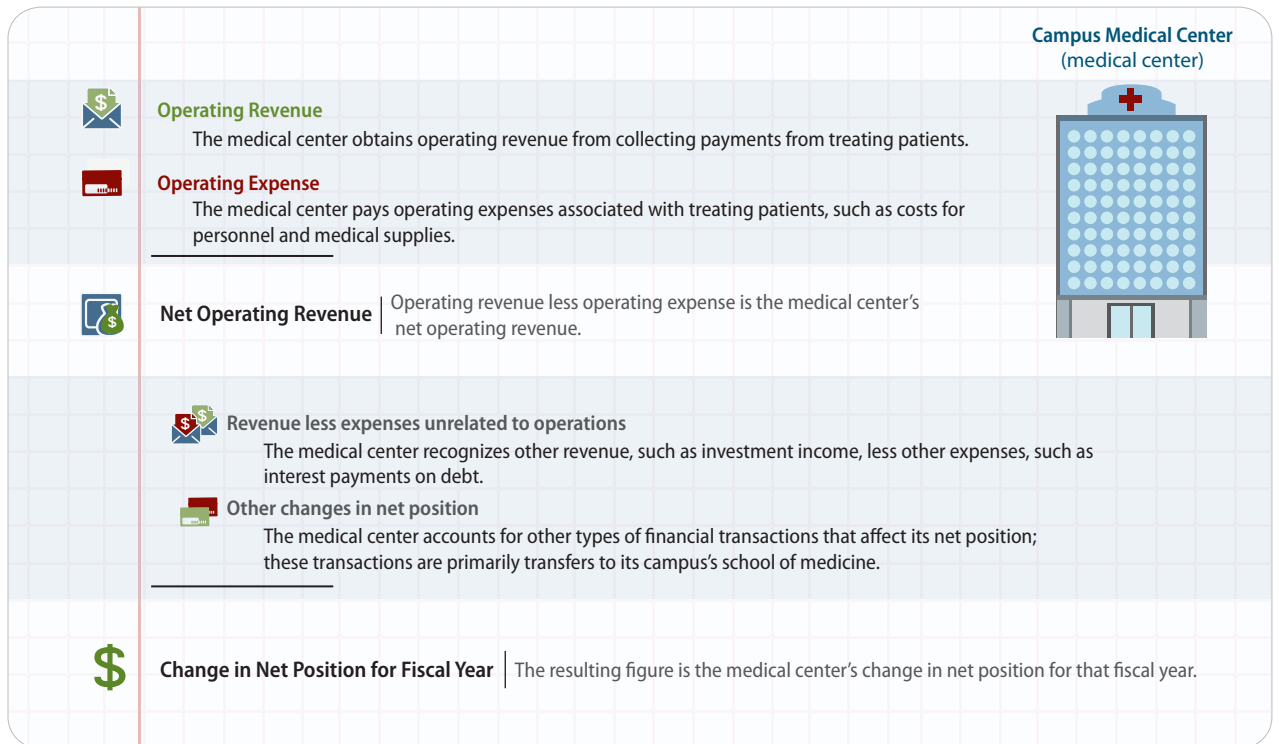
* At the University of California San Francisco, the medical group exists within the school of medicine; at the University of California Los Angeles, it is a separate entity.

UCLA and UCSF Medical Centers Have Financial Relationships With Their Campuses' Schools of Medicine and With Physicians' Medical Groups

A key relationship in the university medical system is between a campus's medical center and its school of medicine. Two components of this relationship are the purchase of services and general support. In the first, the medical center pays the school of medicine for specific services provided by school personnel that benefit the medical center. These include services such as patient care and on-call availability in the event of emergencies. The second component of this financial relationship involves providing more general support for essential physicians or programs, which, for example, helps the school of medicine compensate physicians in cases where their work generates insufficient revenue to support them through their professional fees alone, or where a program requires additional capital to remain viable. Where these payments to the schools of medicine are concerned, the medical centers explained that they transfer all funds to the schools and never pay faculty physicians directly.

All five university medical centers report their finances in a similar way, and they share similar financial characteristics.³ All five generate most of their revenue from collecting payments for providing medical services to patients, have expenses related to treating those patients, and conduct other types of financial activities, such as paying interest expenses and transferring money to other departments of their campuses. Figure 2 provides a simplified example and description of a medical center’s annual statement of revenue, expenditures, and *change in net position*.⁴

Figure 2
 Overview of a University of California Medical Center’s Annual Financial Activities and Change in Net Position



Source: California State Auditor’s analysis of various materials describing academic medical centers.

³ All five medical centers must receive an independent financial audit each year as a condition of bond financing, discussed later in this report. As of fiscal year 2012–13, the university began combining all five medical centers’ audited financial statements in one document.

⁴ A nonprofit organization’s *change in net position* is similar to a for-profit organization’s year-end profit. Change in net position is the medical center’s increase or decrease in net assets calculated by subtracting all expenditures, transfers, and other costs from total revenues for the fiscal year.

The Medical Centers Receive Little Financial Support From the State

The university's medical centers have historically received a small amount of the State's General Fund revenue for use in operations. In total, the Legislature appropriated between \$2.4 billion and \$3.3 billion in General Fund money for the university system for each year of the period we audited. However, the amount the University of California Board of Regents (regents) allocated to the two medical centers represented less than 1 percent of each center's annual operating revenue; in fiscal year 2011–12, UCLA Medical Center received \$13.5 million in General Fund support, while UCSF Medical Center received \$4.3 million. In fiscal year 2012–13, UCSF Medical Center received no General Fund money, and UCLA Medical Center once again received \$13.5 million.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to conduct an audit of UCLA and UCSF medical centers' compensation, staffing, and provision of charity care. The analysis the audit committee approved contained three separate objectives. Table 1 lists the audit committee's objectives and the methods we used to address those objectives.

Table 1
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.	<ul style="list-style-type: none"> • Reviewed federal and state laws and regulations relevant to the University of California (university) and its medical centers. • Reviewed university policies governing the medical centers.
2. For the time period 2009 through 2012, perform the following analysis related to the University of California Los Angeles (UCLA) and the University of California San Francisco (UCSF) medical centers:	
a. Identify the major categories of revenues and expenditures. Identify and examine the categories that had the most significant changes, including any changes in salaries and compensation.	<ul style="list-style-type: none"> • Analyzed the audited financial statements and other financial information for UCLA and UCSF medical centers for fiscal years 2008–09 through 2012–13. • Analyzed trends in major categories of revenues and expenditures, including expenditures for employee salaries and benefits. • Interviewed key officials at UCLA and UCSF medical centers.
b. To the extent possible, determine the annual profit and the annual caseload volume and composition for UCLA and UCSF medical centers. Compare the annual profit to the caseload volume.	<ul style="list-style-type: none"> • Reviewed the financial statements for UCLA and UCSF medical centers for fiscal years 2008–09 through 2012–13 to identify annual profit levels and caseload measures. • Interviewed key officials at UCLA and UCSF medical centers. • Compared caseload volume statistics to financial indicators in the medical centers' financial statements.

AUDIT OBJECTIVE	METHOD
<p>c. Identify the number of employees receiving annual compensation in excess of \$200,000 and compare their level of compensation to similarly situated employees at other university medical centers. Further, determine the reasons for any significant change in the number or compensation levels of employees receiving compensation in excess of \$200,000. To the extent possible, determine whether there is a correlation between changes in compensation levels to patient care and/or nonmanagement staff.</p>	<ul style="list-style-type: none"> • Reviewed applicable university and campus policies regarding compensation. • Judgmentally selected a total of 20 employees at UCLA and UCSF medical centers earning more than \$200,000 and determined whether university personnel properly approved and justified compensation increases between 2009 and 2012. • Reviewed university compensation data for 2009 through 2012. • Interviewed key officials at UCLA and UCSF medical centers. • Reviewed compensation data for chief executive officers at academic medical centers outside California. • Compared data for all five university medical centers on employees receiving compensation in excess of \$200,000. • Analyzed changes in compensation levels and their possible relationships to changes in levels of patient care staff. Analyzed patient care data from the federal Centers for Medicare and Medicaid Services. • Identified national benchmark patient-care quality data and compared it to data for the medical centers. • Analyzed staffing level data from UCLA and UCSF medical centers.
<p>d. Determine the amount of charity care provided by the UCLA and UCSF medical centers and compare it to the amount of charity care provided by the other university medical centers, and to the extent possible, private hospitals.</p>	<ul style="list-style-type: none"> • Reviewed relevant laws and regulations related to charity care. • Reviewed financial information from the university medical centers, other hospitals, and the California Office of Statewide Health Planning and Development. • Interviewed key officials at UCLA and UCSF medical centers.
<p>3. Review and assess any other issues that are significant to the staffing, personnel costs, and revenues and expenditures of the UCLA and UCSF medical centers.</p>	<ul style="list-style-type: none"> • Analyzed financial transfers occurring between fiscal years 2008–09 and 2012–13 from the medical centers to other departments of their campuses. • Interviewed key officials at UCLA and UCSF medical centers to confirm their processes for providing health system support. • Reviewed information regarding financial transfers at other academic medical centers. • Interviewed key officials at the University of California’s Office of the President regarding the extent of the university’s reporting of health system support.

Sources: California State Auditor’s analysis of Joint Legislative Audit Committee audit request number 2013-111, and information and documentation identified in the table column titled *Method*.

Assessment of Data Reliability

In performing this audit, we obtained electronic data files extracted from the university Office of the President’s Corporate Data Warehouse, which contains current and historical data extracted from the Corporate Personnel System and from the Decision Support System (earnings data). The U.S. Government Accountability Office (GAO), whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. We performed data-set verification procedures and electronic testing of key data elements and did not identify any issues. We did not perform accuracy and completeness testing of the earnings data because they are from primarily paperless systems, and thus hard-copy documentation was not available for review. Alternatively, following GAO

guidelines, we could have reviewed the adequacy of selected system controls that include general and application controls. However, we did not conduct these reviews because each campus's system is different, and the campuses are spread throughout the State, making such testing cost prohibitive. Consequently, we determined the earnings data were of undetermined reliability for the purpose of identifying the number of employees and calculating employee earnings by job classification at the university medical centers at Los Angeles, San Francisco, Davis, Irvine, and San Diego for the period from January 2009 through December 2012.

Audit Results

The University of California Los Angeles and University of California San Francisco Medical Centers Were Financially Sound Between Fiscal Years 2008–09 and 2012–13

The University of California Los Angeles Medical Center (UCLA Medical Center) and the University of California San Francisco Medical Center (UCSF Medical Center) reported positive financial results for fiscal years 2008–09 through 2012–13.⁵ Their annual revenue resulted almost exclusively from income derived from providing patient services. This income outpaced growth in the medical centers' increasing personnel costs and other operational expenses. However, transfers of funds to support campus entities affiliated with the medical centers—such as schools of medicine—reduced the amount of revenue that the medical centers retained at the end of each year. Further, the size of these transfers increased substantially. To the extent that they continue to increase in size, the transfers may affect the financial health of the medical centers and the patient services they provide. As discussed in this report, the overall financial health of UCLA and UCSF medical centers depends on many factors, including external pressures such as changes in reimbursement rates from insurers and health care reform. However, our review identified that financial transfers are an important factor in the ongoing operations of the medical centers.

State law gives the University of California Board of Regents (regents)—the University of California's (university) governing board as established in the state constitution—the authority to manage the university's finances, including the revenue generated by the medical centers. Specifically, the state constitution grants the regents authority to govern the university, with allowances for the Legislature to ensure the security of state funds. In addition, state courts have ruled that the university is subject to legislative control in just three areas: appropriation of state funds, exercise of general police power to provide for public health and welfare, and application of legislation on matters of general statewide concern. However, law indicates that the Legislature cannot direct the university's internal affairs, and therefore it cannot substitute its judgment for that of the regents in setting university policy. Therefore, without the regents' agreement, the Legislature cannot redirect university-generated funds for a purpose of its own choosing, such as the establishment of a new medical center.

⁵ The UCLA Medical Center includes Ronald Reagan UCLA Medical Center, Santa Monica UCLA Medical Center and Orthopaedic Hospital, and Resnick Neuropsychiatric Hospital at UCLA.

Limits also exist on the regents' authority to determine uses of university funds. For example, federal tax law states that nonprofit entities, such as the university, must be organized and operated exclusively for a tax-exempt purpose. Unlike private businesses that make various types of distributions with their profits, nonprofits cannot use their net earnings to benefit any individual. Moreover, some of the terms of the medical centers' bonds require the university to retain sufficient revenue to pay off the bonds. Generally, nonprofit entities that generate revenue in excess of expenditures retain excess revenues in reserve in case they face deficits in future years, and they must comply with laws governing nonprofits' use of funds in order to maintain tax-exempt status. Therefore, although the regents may exercise considerable discretion over the use of the university's assets, certain external factors constrain their use of those assets.

Treating Patients Produced Almost All of the Two Medical Centers' Revenue

More than 95 percent of the total revenue generated by each medical center during fiscal years 2008–09 through 2012–13 came from providing patient services, such as transplants, neurosurgery, and cancer treatment.

Income from providing patient services was UCLA and UCSF medical centers' largest source of revenue from fiscal years 2008–09 through 2012–13. More than 95 percent of the total revenue generated by each medical center during this time came from providing patient services, such as transplants, neurosurgery, and cancer treatment. For example, in fiscal year 2012–13, UCLA Medical Center's patient revenue of \$1.8 billion constituted 96 percent of its total operating revenue, and patient revenue of \$2.1 billion constituted 97 percent of total operating revenue at UCSF Medical Center. From fiscal years 2008–09 through 2012–13, net patient service revenue—the revenue from patient services remaining after the medical center deducts an allowance for bad debts and estimated allowances for reductions in payments from government and private insurance—increased by 32 percent at UCLA Medical Center and by 29 percent at UCSF Medical Center. In their financial statements, the medical centers attributed this growth to increased reimbursement rates from government and private insurance. When citing contributors to growth in patient revenue, UCSF Medical Center also pointed to increases in the complexity of the cases treated, while UCLA Medical Center noted an increase in outpatient caseload.

The Two Medical Centers' Salary Payments Constituted Their Largest Category of Expenditures

Salaries and wages represented the largest category of expenditures for both centers from fiscal years 2008–09 through 2012–13. Salaries and wages made up nearly 40 percent of operating

expenditures at UCSF Medical Center and more than 44 percent at UCLA Medical Center during this period, and grew by 24 percent at UCLA Medical Center and by 20 percent at UCSF Medical Center. In fiscal year 2012–13, UCSF Medical Center spent \$773 million on salaries and wages, while UCLA Medical Center spent \$744 million. In their financial statements, frequently cited reasons for salary expenditure increases during this time included hospital staffing increases and salary rate increases. In addition to increased expenditures for salaries and wages, expenditures on employee retirement and other benefits grew rapidly, increasing by 74 percent at UCLA Medical Center and 71 percent at UCSF Medical Center from fiscal years 2008–09 through 2012–13. As a percentage of total annual expenditures, these employee benefits grew from 10 percent to 14 percent at UCLA Medical Center during this period, and from 8 percent to 11 percent at UCSF Medical Center. In fiscal year 2012–13, UCSF Medical Center spent \$224 million on employee retirement and other benefits, while UCLA Medical Center spent \$239 million. These costs rose primarily because of rapidly increasing contributions by the medical centers to the university’s employee retirement plan. Other major categories of expenditures at both medical centers included medical supplies, other supplies, and purchased services. Purchased services include faculty physician (physician) services that benefit the medical center, such as medical direction and clinical coverage, as well as repairs, maintenance, and administrative services. Purchased services do not include direct payment to physicians for providing patient care at medical centers.

Monetary Transfers to Their Campuses’ Schools of Medicine Reduced Available Funds at the End of Each Year

The transfer of funds from UCLA and UCSF medical centers to other campus departments, primarily their schools of medicine, grew significantly from fiscal years 2008–09 through 2012–13. The medical centers commonly refer to these transfers as *health system support*. Health system support reduced the amounts of funds available to the medical centers at the end of each fiscal year. At UCLA Medical Center the annual amounts of health system support nearly tripled from fiscal years 2008–09 through 2012–13, and they nearly doubled at UCSF Medical Center during this period. Although these transfers were not the only transactions that affected each medical center’s change in net position each year—interest payments on loans for construction projects were also often significant—the health system support generally represented the largest type of financial transaction that did not relate to the medical center’s operating income but reduced the medical center’s

Expenditures on employee retirement and other benefits grew rapidly, increasing by 74 percent at UCLA Medical Center and 71 percent at UCSF Medical Center from fiscal years 2008–09 through 2012–13.

In light of the medical centers' increases in health system support and the variability of their changes in net position, the medical centers could eventually reach their capacity to increase payments to the schools of medicine.

*change in net position.*⁶ The purposes of these transfers include helping to support the salaries of physicians providing services to medical center patients, as well as funding strategic initiatives. As such, the growing size of the transfers may have implications for long-term sustainability of providing certain types of services.

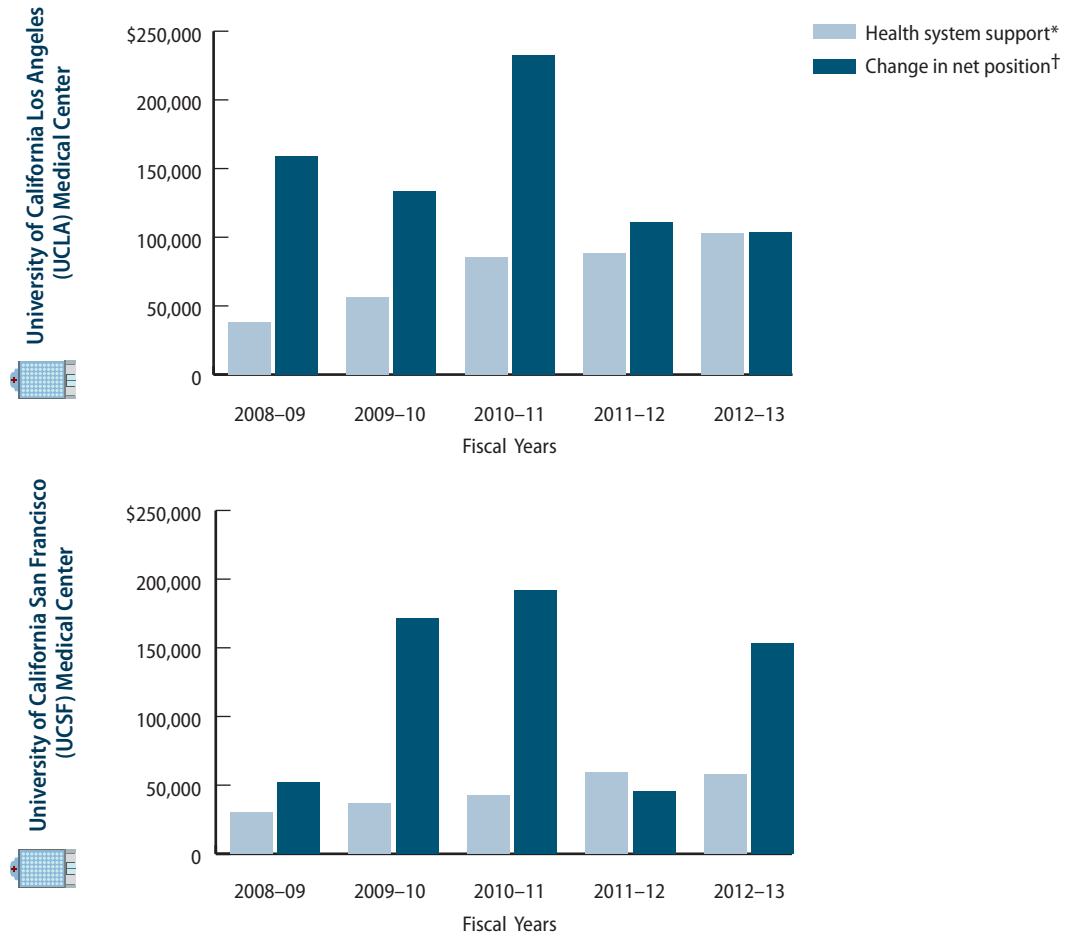
In contrast to their amounts of health system support, the medical centers' changes in net position fluctuated from year to year. Overall growth in net position was significant: From fiscal years 2008–09 through 2012–13, UCLA Medical Center's net position increased from \$1.3 billion to \$1.9 billion, and UCSF Medical Center's net position grew from \$761 million to \$1.3 billion. Figure 3 contrasts the generally steady growth of the medical centers' health system support with annual changes in net position that, although positive, varied significantly. One factor that contributed to the variability in the centers' changes in net position was the fact that both medical centers received substantial payments in fiscal year 2010–11 through a state program associated with the federal American Recovery and Reinvestment Act; these payments supplemented Medicaid revenue for hospitals.⁷ In that year, UCLA Medical Center reported receiving \$48 million in revenue from the program, and UCSF Medical Center reported receiving revenue of \$51 million. Without these funds, the medical centers' ultimate increases in net position would have been much lower.⁸ In light of the medical centers' increases in health system support and the variability of their changes in net position, the medical centers could eventually reach their capacity to increase payments to the schools of medicine. If this occurs, the medical centers will have to make difficult choices about which areas of medical care to support.

⁶ A nonprofit organization's *change in net position* is similar to a for-profit organization's year-end profit. Change in net position is the medical center's increase or decrease in net assets calculated by subtracting all expenditures, transfers, and other costs from total revenues for the fiscal year.

⁷ Assembly Bill 1383 (Chapter 627, Statutes of 2009) established a state program that provided supplemental payments to hospitals for various health care services. The state program relied in part on enhanced Medicaid payment percentages contained in the American Recovery and Reinvestment Act.

⁸ Both medical centers also reported some revenue under the program in fiscal year 2011–12, but those reported amounts were significantly smaller, totaling \$2.4 million for UCLA Medical Center and \$5 million for UCSF Medical Center.

Figure 3
Amounts of Health System Support and Changes in Net Positions at University of California Los Angeles and University of California San Francisco Medical Centers
Fiscal Years 2008–09 Through 2012–13
(Dollars in Thousands)



Sources: UCLA and UCSF medical centers' audited financial statements for fiscal years 2008–09 through 2012–13.

* Health system support consists of financial transfers made by a medical center to other campus departments, most of which go to the campus school of medicine for purposes such as funding school of medicine operating expenses.

† Change in net position is the medical center's increase or decrease in net assets calculated by totaling all revenue and subtracting expenditures, transfers, and other costs for the fiscal year.

UCLA and UCSF Medical Centers Do Not Report Enough Information About the Support They Provide to Their Respective Schools of Medicine

Although UCLA and UCSF medical centers provided millions of dollars in health system support to other campus departments, the two medical centers' financial reports lack specificity about the purposes for these monetary transfers, and the university does not

We noted the lack of clear explanations in the UCLA and UCSF medical centers' financial reports for transfers made to other campus departments, despite the transfers' substantial and increasing financial importance.

include details about them in other reports it issues. From fiscal years 2008–09 through 2012–13, the amount of these transfers ranged from a low of \$30 million in fiscal year 2008–09 at UCSF Medical Center to a high of \$103 million in fiscal year 2012–13 at UCLA Medical Center. During this period, the school of medicine on each campus received the largest proportions of these transfers. Such transfers are common among academic medical centers in other states, and the transfers at the UCLA and UCSF medical centers appear to be similar in type and proportion to those that occur at other academic medical centers. We did not identify any inherent problems with these transfers, but we noted the lack of clear explanations for the specific purposes of these transfers in UCLA and UCSF medical centers' financial reports, despite the transfers' substantial and increasing financial importance. Without detailed explanations for these transfers, not only do the regents remain underinformed about the university health system's monetary needs, but legislators, university employees, university students, potential donors, taxpayers, and other interested individuals also lack useful information about each medical center's financial situation.

Because the descriptions of health system support listed in the medical centers' financial statements do not clearly explain the specific purposes to which the funds are put, and the university does not issue a report describing details about these transfers, we analyzed available internal documents about the specific purposes for those transfers and the processes by which the medical centers identify those purposes. We focused on documentation from fiscal year 2011–12 for UCLA Medical Center and from fiscal year 2012–13 for UCSF Medical Center; these records were the most recent such documentation that the medical centers had available at the time of our review. Our work at the two medical centers revealed similar, though not identical, processes by which the centers transfer funds to the schools of medicine and the purposes for which they do so. In each case, the total amount of support transferred by the medical center appears to be the result of agreements with medical departments within the schools of medicine. At UCSF Medical Center, some agreements we reviewed provide for health system support each time a physician provides a service to a medical center patient. For example, one agreement provided for gastroenterology services with a payment amount based on a fee for each unit of service that the medical center expected the physician to provide.

Other agreements more broadly support a specific program or physician. For example, an agreement from UCSF Medical Center guaranteed to provide salary and bonus support to the school of medicine for a neurological physician in the event that the

physician did not generate enough revenue from clinical services to pay for the physician's compensation. At UCLA Medical Center, an employment offer to a prospective chair of the school of medicine's department of orthopaedic surgery indicated that the medical center would provide financial support to this department for trauma services. Methods used to determine the amounts the medical schools need differ: The chief financial officer of UCSF Medical Center shared spreadsheets with us demonstrating the computations used to identify the amount of financial support included in two agreements. UCLA Medical Center's chief financial officer shared a letter that the school of medicine's executive chair sent to the chief executive officer of UCLA's health programs, advocating for additional financial support for staffing a hospital patient care program and explaining how much health system support was needed.

Both medical centers' chief financial officers reported that the increasing amounts of health system support to the schools of medicine are being driven by the growing gap between the revenue the schools generate from physicians' services and the costs of operating clinical practices—including the costs of employing physicians. In addition, UCLA Medical Center's chief financial officer stated that in 2010 the medical center directed \$25 million in health system support funds to purchase a clinical practice in Santa Monica. Both chief financial officers also said that their provision of health system support is consistent with practices of academic centers nationwide, and UCLA Medical Center's chief financial officer added that the recent amounts the medical center provided are in line with other academic medical centers.

Our review into the practices of several other academic medical centers, while limited, suggests that this type of support is commonplace and that the amounts reported by UCLA and UCSF medical centers in recent years are not out of proportion to those of other academic medical centers located elsewhere in the United States. In addition, benchmark data from the University HealthSystem Consortium indicate that UCSF and UCLA medical centers were below the industry median in fiscal year 2010–11 in providing funding to their respective schools of medicine.⁹ Fiscal year 2010–11 was the most recent year for which the medical centers were able to provide these benchmark reports for our review.

Both medical centers' chief financial officers reported that the increasing amounts of health system support to the schools of medicine are being driven by the growing gap between the revenue the schools generate from physicians' services and the costs of operating clinical practices.

⁹ The University HealthSystem Consortium is a national alliance of 120 academic medical centers and 300 of their affiliated hospitals that collects and reports comparative data on various subjects related to performance improvement.

We believe it would benefit the university and its stakeholders to increase transparency in this area by periodically making public information detailing the transfers.

Notwithstanding the apparently valid reasons for these transfers, and the fact that UCLA and UCSF medical centers comply with current university accounting policies in reporting them, these policies and related practices provide too little transparency regarding the specific purposes of the transfers, especially in light of the increasing amounts of health system support previously discussed. As the proportion of total medical center costs consisting of these transfers and the services they support increases, so does the need for greater transparency. Accordingly, we believe it would benefit the university and its stakeholders to increase transparency in this area by periodically making public information detailing the transfers. The university's senior vice president and chief compliance and audit officer agreed that this recommendation is reasonable.

The Financial Performance of UCLA and UCSF Medical Centers Does Not Correlate Directly With Measures of Their Patient Caseloads

From fiscal years 2008–09 through 2012–13, UCLA and UCSF medical centers' volume of patient cases showed fluctuations, but the medical centers' net operating revenue—generally revenue from treating patients that exceeds the costs of providing treatment—rose significantly. UCLA Medical Center's number of patients formally admitted to the hospital (inpatients), as measured in patient days, increased by 2 percent during those five fiscal years, while UCSF Medical Center's patient days declined by 7 percent.¹⁰ Both medical centers generally saw increases in outpatient caseloads during this period, with UCSF Medical Center experiencing 14 percent growth and UCLA Medical Center experiencing a 4 percent increase.¹¹ We compared the medical centers' fluctuations in inpatient and outpatient caseloads with data in a March 2012 report by the federal Medicare Payment Advisory Commission.¹² These data show that the two medical centers' experiences are in line with the national trend among hospitals. Table 2 displays patient days and outpatient visits by fiscal year for both medical centers.

¹⁰ According to the California Office of Statewide Health Planning and Development (OSHPD), *patient days* are the number of days that all patients formally admitted to the hospital, or inpatients, are hospitalized. Patient days include the day of admission but not the day of discharge. If a patient's admission and discharge occur on the same day, it counts as one patient day.

¹¹ An outpatient is a patient who receives medical treatment without being admitted to an overnight stay in a hospital.

¹² The Medicare Payment Advisory Commission is an independent congressional agency that advises the United States Congress on issues affecting the federal Medicare program.

Table 2
Caseload Measures for University of California Los Angeles and University of California San Francisco Medical Centers
Fiscal Years 2008–09 Through 2012–13

CASELOAD CATEGORIES	FISCAL YEAR					PERCENTAGE CHANGE FROM FISCAL YEARS 2008–09 THROUGH 2012–13
	2008–09	2009–10	2010–11	2011–12	2012–13	
Patient Days*						
University of California Los Angeles (UCLA) Medical Center	261,021	261,895	263,717	263,261	267,136	2%
University of California San Francisco (UCSF) Medical Center	190,870	182,641	182,397	179,611	177,646	(7)
Outpatient Visits†						
UCLA Medical Center	894,667	869,670	928,590	971,207	932,313	4
UCSF Medical Center	791,189	807,529	831,280	830,747	899,218	14

Sources: UCLA and UCSF medical centers’ audited financial statements for fiscal years 2008–09 through 2012–13.

* According to the California Office of Statewide Health Planning and Development, *patient days* are the number of days that patients formally admitted to the hospital, or inpatients, are hospitalized.

† An *outpatient* is a patient who receives medical treatment without being admitted to an overnight stay in a hospital.

Because net operating revenue increased at a greater rate than did the caseload measures we reviewed—patient days, outpatient visits, caseload complexity, and the composition of the pool of payers for patient services (payer mix)—we concluded that caseload alone cannot account for the medical centers’ revenue growth. UCLA Medical Center reported net operating revenue that was more than 50 percent higher in fiscal year 2012–13 than in fiscal year 2008–09. UCSF Medical Center’s net operating revenue rose 22 percent during the same time frame.¹³ By contrast, no caseload measure we analyzed increased by more than 4 percent over this period except UCSF Medical Center’s outpatient activity. Depicting the lack of correlation between the medical centers’ caseload measures and net operating revenue, Figure 4 on the following page compares changes in this revenue to changes in the patient days recorded by the medical centers from fiscal years 2008–09 through 2012–13.

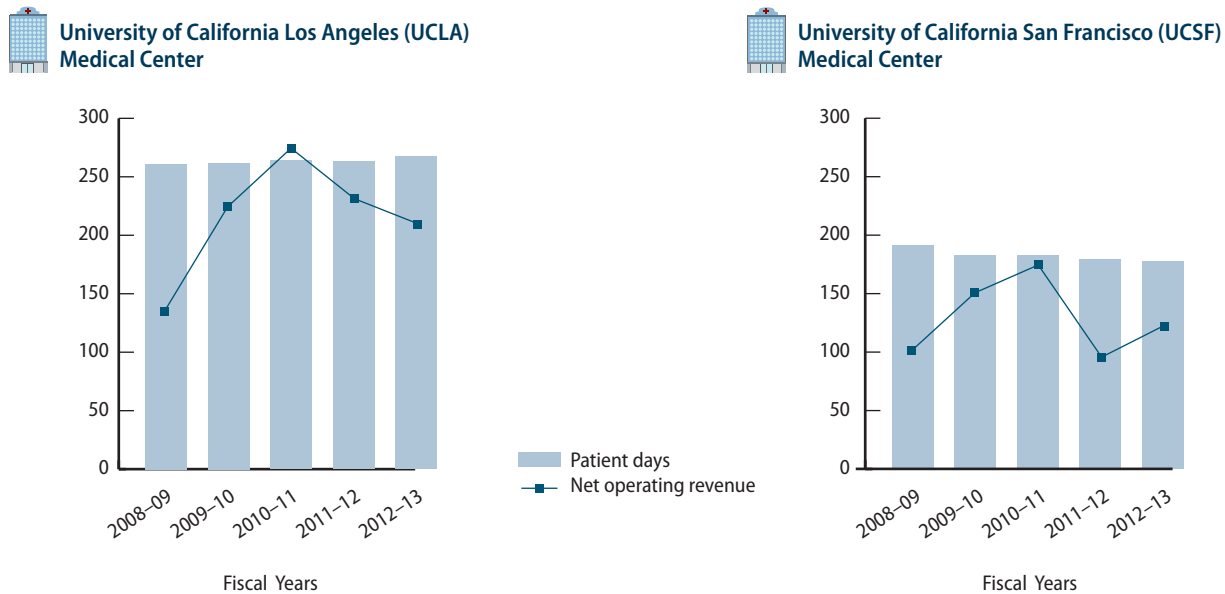
¹³ Because the medical centers’ changes in net position are affected by transactions unrelated to their operations and not directly linked to treating patients, we used trends for net operating revenue to analyze the relationship between the medical centers’ caseloads and their financial performance.

Figure 4**Correlation Between Changes in Net Operating Revenue and Patient Days at the University of California Los Angeles and the University of San Francisco Medical Centers**

Fiscal Years 2008–09 Through 2012–13

(Patient Days in Thousands)

(Net Operating Revenue in Millions)



Sources: UCLA and UCSF medical centers' audited financial statements for fiscal years 2008–09 through 2012–13.

Note: According to the California Office of Statewide Health Planning and Development, *patient days* are the number of days that all patients formally admitted to the hospital, or inpatients, are hospitalized.

As the previous paragraph on page 19 suggests, additional factors beyond patient volume complicate the relationship between the medical centers' caseloads and their revenue trends. For example, we noted that higher complexity of cases treated can increase revenue collected because the medical centers are able to charge more for complex treatments. However, according to a standard industry measure known as the *case mix index*, the complexity of UCLA and UCSF medical centers' respective caseloads increased only marginally from fiscal years 2008–09 through 2012–13. In addition, the chief financial officers for both medical centers stated that payer mix can have a large impact on revenue generated by providing medical services, primarily because reimbursement rates from insurance companies are higher than reimbursement rates from government payers such as Medicare. Our review found that the proportion of patient revenue received from commercial payers at both UCLA and UCSF medical centers increased slightly from fiscal years 2008–09 through 2012–13, accounting for some but not all of the increases in patient revenue the centers experienced during that period. Finally, our review identified still other factors—some only indirectly related to caseload—that could influence revenue trends. For example, both chief financial officers

noted that their medical centers negotiated improved rates from commercial payers during this period, which also contributed to revenue growth.

UCLA and UCSF Medical Centers Complied With Applicable Policies for Approving Compensation Increases

UCLA and UCSF medical centers use their revenue principally for paying salaries and benefits, and the two medical centers followed relevant policies for determining this compensation. Additionally, the procedures that UCLA and UCSF medical centers followed in setting and increasing pay levels for highly compensated employees complied with policies set by the University of California Office of the President (Office of the President). In doing so, the medical centers helped ensure that their employees were appropriately compensated and that compensation increases were justified.

Types of compensation adjustments that employees may receive to increase their base salaries primarily include merit increases, promotional increases, and equity increases. Further, employees may also receive incentive awards as an addition to their base salary. Equity increases and incentive awards are defined in the text box. Other types of compensation employees can receive in addition to base salaries include shift differentials and on-call pay. We selected for review employees that had at least one compensation increase from 2009 through 2012. We reviewed files at UCLA and UCSF medical centers and found that the medical centers complied with applicable policies when justifying and approving compensation increases. Moreover, all 20 of the employees whose files we reviewed received incentive awards during the years under review, and we found that the medical centers complied with applicable policies when justifying and approving these incentive awards.

Definitions of Terms Related to University Compensation

An **equity increase** is an increase in compensation to correct a significant salary inequity caused by factors such as rapidly changing external market conditions or a disparity in salaries created by new hires in the same or substantially similar jobs who have comparable levels of skill and experience but receive higher salaries.

Incentive awards are cash awards that are intended to motivate individuals or teams to produce results that have been predefined and communicated to participants in advance and to reward them for achieving the stated performance objectives. These objectives should require participants to stretch their performance beyond their normal duties and responsibilities.

Source: Various University of California policies.

Salary adjustments for employees at all five university medical centers are governed by a number of different policies, with both universitywide and campus-specific policies governing different groups of employees. The medical centers have four basic categories of employees: senior managers, managers and senior professionals, professionals and support staff not represented by unions, and professionals and support staff represented by unions. Compensation increases for employees in the senior management group require regents' approval, while compensation increases for the other groups of employees require other approvals,

as Table 3 illustrates. Uniquely, salary increases and adjustments for represented professionals and support staff are governed by the collective bargaining agreements for the specific unit type. At both UCLA and UCSF medical centers, we analyzed compensation adjustments for 10 employees making more than \$200,000 in at least one calendar year from 2009 through 2012, to determine whether university personnel appropriately justified and approved the adjustments.

Table 3

Types of Policies Governing and Authority for Approving the Compensation Increases of Employees at University of California Los Angeles and University of California San Francisco Medical Centers

EMPLOYEE CATEGORY	EXAMPLES OF POSITIONS IN THE EMPLOYEE CATEGORY	TYPES OF POLICIES GOVERNING COMPENSATION FOR CATEGORY	DECISION MAKER RESPONSIBLE FOR APPROVING COMPENSATION CHANGES
Senior management group	Executives, such as chief financial officers	Policies of the University of California Board of Regents (regents)	Regents
Managers and senior professionals	Managers, such as controllers and senior associate directors, and senior professionals, such as nurses	Policies of the University of California Office of the President (Office of the President) and of the local campus's human resources department	Campus chancellor
Nonrepresented professionals and support staff	Nurses, pharmacists, technicians	Policies of the Office of the President and of the local campus's human resources department	Campus chancellor
Represented professionals and support staff	Nurses, pharmacists, technicians	Collective bargaining agreements	Collective bargaining agreements

Sources: California State Auditor's analysis of University of California Los Angeles Medical Center's, University of California San Francisco Medical Center's, and the regents' policies related to compensation.

Note: This table does not include physicians because the university medical centers generally do not employ them. The policies reflected in the table are applicable during the audit period from 2009 through 2012. In November 2012 the regents adjusted the approval authority standards required for compensation for the senior management group. For purposes of this report, compensation includes all earnings paid to the employee, including base salary, incentive awards, and allowances. It does not include future payments, such as pensions.

Policies require that medical center employees' salaries be set within a specific range established by the regents and medical centers, and the medical centers complied with this requirement. According to policies from the regents, the university's Office of the President, and the human resources departments at the University of California Los Angeles and the University of California San Francisco, whose policies apply to medical center employees, an employee's salary must be within the salary range that is assigned to the employee's position based on the position's duties and responsibilities. However, under certain circumstances, the university can make exceptions for paying salaries outside of this range. For example, a salary increase above the salary range maximum for a senior management group employee must have proper justification, such as documentation that the

proposed increase is necessary for the employee's salary to remain competitive with those that other entities might offer, based on market survey data, and must be approved by the regents. The salaries for all 20 employees whose salaries we reviewed were within the appropriate salary ranges.

Medical center employees can earn significant augmentations to their base pay. According to university policies, employees are eligible for different types of compensation increases and cash awards. For example, incentive awards are cash awards intended to motivate individuals or teams to produce results that have been predefined and communicated to the participants in advance in accordance with an incentive award plan to reward them for achieving the stated performance objectives. As of fiscal year 2011–12, senior management employees and high-level managers, such as an executive director of ambulatory care services, can generally earn incentive awards of up to 25 percent of their base salaries. In addition, mid-level managers, such as the budget director of the medical center, can earn bonuses of up to 15 percent of their base salaries. All 20 employees whose compensation we reviewed received incentive award bonuses in at least one year from 2009 through 2012. These employees received awards ranging from less than 1 percent to 25 percent of their base salary. Further, we found that the medical centers followed applicable policies when justifying and approving compensation increases and incentive awards for all 20 employees.

Medical center employees can earn significant augmentations to their base pay according to university policies.

Executives at UCLA and UCSF Medical Centers Generally Received Higher Total Compensation Than Did Their Counterparts at the University's Other Medical Centers

Top executives at UCLA and UCSF medical centers generally received more in total compensation than did executives in similar positions at University of California Davis Medical Center (Davis Medical Center), University of California Irvine Medical Center (UCI Medical Center), and University of California San Diego Medical Center (UCSD Medical Center).¹⁴ For example, from 2009 through 2012, the chief executive officer at UCLA Medical Center received 33 percent more in total compensation than the average for that position across all five university medical centers, while total compensation for the chief executive officer

¹⁴ For purposes of this report, *total compensation* includes all earnings paid to the employee, including base salary, incentive awards, and allowances. It does not include future payments, such as pensions.

at UCSF Medical Center was 21 percent higher than the average. Table 4 compares total compensation for four top executive positions at all five university medical centers.

Table 4
Average Annual Compensation for Chief Officers of University of California Medical Centers
2009 Through 2012
(Dollars in Thousands)

CHIEF OFFICER	UNIVERSITY OF CALIFORNIA				
	LOS ANGELES	SAN FRANCISCO	DAVIS	IRVINE	SAN DIEGO
Chief executive officer	\$1,185	\$1,082	\$822	\$706	\$666*
Chief operating officer	605	628	584	385*	476
Chief medical officer	521	400*	417	399	439
Chief financial officer	487	487*	478	327*	318

Sources: California State Auditor's analyses of University of California Office of the President (Office of the President) data from its Corporate Data Warehouse, Corporate Personnel System, and Decision Support System, and of annual reports on executive compensation published by the Office of the President.

Note: For purposes of this report, *compensation* includes all earnings paid to the employee, including base salary, incentive awards, and allowances. It does not include future payments, such as pensions.

* Data from the Corporate Personnel System were incomplete for these individuals for one or more years from 2009 through 2012. Therefore, we used compensation data from the Office of the President's reports on executive compensation. Those reports provide projected instead of actual compensation data.

UCSF Medical Center's chief administrative and human resources officer and both UCLA Medical Center's senior associate director of patient affairs, human resources, and marketing and its chief financial officer indicated that when analyzing compensation for the two medical centers' top executives, a comparison of these executives' compensation to that of their counterparts at similarly ranked hospitals across the nation is more appropriate than is a comparison among executive compensation amounts at the five university medical centers. In pursuing this comparison, we noted a wide range in reported compensation for executives at other prestigious American hospitals. For example, according to *Becker's Hospital Review*,¹⁵ in 2010 the Cleveland Clinic—rated

¹⁵ *Becker's Hospital Review* is a trade publication produced by Becker's Healthcare that compiles hospital and health system news, best practices, and legal guidance for high-level hospital leaders.

fourth in the 2013 U.S. News and World Report rankings—reported in its tax returns that its chief executive officer received \$2.31 million in total compensation, while in 2011 Cedars-Sinai Medical Center in Los Angeles, another top-ranked hospital, paid its chief executive officer \$2.77 million. The Hospital of the University of Pennsylvania, which was ranked 11th in 2013, paid its executive director \$1.53 million in 2010. These data indicate that chief executive officers of highly ranked medical centers are highly compensated. In addition to the need to compete with other highly ranked institutions for executive staff, both medical centers' human resources officers also cited the impact of the same geographic factors that contribute to campus-specific pay ranges in university policy for nonexecutive staff.

UCLA and UCSF Medical Centers Increased Their Proportions of Employees Who Received More Than \$200,000 in Compensation Annually

Highly compensated employees became more common at UCLA and UCSF medical centers from 2009 through 2012.¹⁶ As Table 5 on the following page indicates, at both UCLA and UCSF medical centers, the number of employees compensated more than \$200,000 annually increased, as did their proportion among all medical center employees at these two medical centers.¹⁷ However, these highly compensated employees were greater in number at UCSF Medical Center throughout the period, primarily because of higher pay scales for nonexecutive employees at that medical center. These differences in pay rates for nonexecutive managers at each campus are elements of universitywide policy and are rooted in geographic market differences. UCSF Medical Center's chief administrative and human resources officer provided us with figures for negotiated pay rates for such represented employees as nurses and pharmacists. These figures further demonstrate how compensation varies between the two medical centers. Senior human resources staff at both UCLA and UCSF medical centers stated that trends in local labor markets also drive these rates.

¹⁶ Some data that the California State Auditor reviewed for this report were available only on a fiscal-year basis, while we reviewed other data on a calendar-year basis. Throughout this report, when we do not state that we reviewed fiscal-year data, we instead reviewed data in calendar-year form.

¹⁷ In calculating the proportions for certain job classifications, we did not include employees who earned less than \$10,000 in a given calendar year in our count of employees for that same calendar year.

Table 5
Number and Percentage of Employees at University of California Los Angeles and University of California San Francisco Medical Centers Who Received Compensation in Excess of \$200,000 Annually in 2009 and 2012

MEDICAL CENTER	2009	2012
Number of Employees Who Received More Than \$200,000 Annually		
University of California Los Angeles Medical Center (UCLA Medical Center)	28	56
University of California San Francisco Medical Center (UCSF Medical Center)	77	129
Percentage of Total Employees Who Received More Than \$200,000 Annually		
UCLA Medical Center	0.28%	0.50%
UCSF Medical Center	0.95	1.50

Sources: California State Auditor's analysis of data obtained from the University of California Office of the President's Corporate Data Warehouse, Corporate Personnel System, and Decision Support System.

Note: For purposes of this report, *compensation* includes all earnings paid to the employee, including base salary, incentive awards, and allowances. It does not include future payments, such as pensions.

From 2009 through 2012, the job classifications of highly compensated employees also differed notably between the two medical centers, as Table 6 shows. *Nurses and Nursing Services Employees* was the employee classification within which the two centers had the greatest difference in number of employees earning more than \$200,000: In 2012 UCSF Medical Center had 45 employees at this compensation level compared to UCLA Medical Center's five employees at that level. Significant differences occurred in other employee classifications as well. For example, UCSF Medical Center compensated some pharmacists more than \$200,000 each year, while UCLA Medical Center did not compensate any pharmacists at this level in any of the four years we reviewed. In all four years, at both medical centers, the *Managers* category was the largest category of employees earning more than \$200,000.

UCSF Medical Center's chief financial officer and its chief administrative and human resources officer stated that negotiated rates for represented nurses and pharmacists contributed to the trend toward higher compensation for employees in those classifications.¹⁸ Our analysis of pay rates for represented nurses

¹⁸ *Represented* personnel are those employees who are members of a labor union, or bargaining unit. Contracts negotiated between the bargaining units and the university cover all aspects of the employee's employment, including pay rates.

at both medical centers, provided by UCSF Medical Center’s chief administrative and human resources officer, found that the nurses at UCSF Medical Center had higher base pay rates than those at UCLA Medical Center. In addition, UCSF Medical Center nurses benefit from higher rates for shift differentials and on-call pay than do nurses at UCLA Medical Center.¹⁹ UCSF Medical Center’s chief financial officer indicated that the primary reason for the increased earnings among nurses and pharmacy staff and the growth in the number of employees earning more than \$200,000 annually in recent years was overtime pay for work related to the medical center’s implementation of its electronic health records system. In explaining pharmacists’ pay, UCSF Medical Center’s chief administrative and human resources officer stated that the medical center compensates all of its pharmacists—who are also eligible for overtime and extra compensation for being on call—at the top of the classification’s pay scale, regardless of their level of experience. He explained that this policy started several years ago because of high levels of competition from private-sector employers for pharmacists.

Table 6
Number of Employees at University of California Los Angeles and University of California San Francisco Medical Centers Who Received Annual Compensation in Excess of \$200,000 2009 Through 2012

EMPLOYEE CLASSIFICATION	2009		2010		2011		2012	
	UNIVERSITY OF CALIFORNIA LOS ANGELES (UCLA)	UNIVERSITY OF CALIFORNIA SAN FRANCISCO (UCSF)	UCLA	UCSF	UCLA	UCSF	UCLA	UCSF
	Executives	7	5	7	6	7	7	8
Managers	18	45	24	20	31	35	35	51
Management Services Personnel	1	0	1	0	2	0	3	0
Nurses and Nursing Services Employees	1	19	3	13	9	27	5	45
Radiation Technologists	1	2	2	2	2	3	3	7
Radiation Physicists	0	0	1	0	1	0	1	0
Pharmacists	0	2	0	1	0	10	0	9
Medical Auxiliary Personnel	0	1	0	0	0	0	0	1
Clinical Professors	0	3	0	3	0	3	0	3
Computer Programmers	0	0	0	0	0	1	0	7
Other	0	0	0	0	1	0	1	0
Totals	28	77	38	45	53	86	56	129

Sources: California State Auditor’s analysis of data obtained from the University of California Office of the President’s Corporate Data Warehouse, Corporate Personnel System, and Decision Support System.

Note: For purposes of this report, *compensation* includes all earnings paid to the employee, including base salary, incentive awards, and allowances. It does not include future payments, such as pensions.

¹⁹ *Shift differential* is added pay for work performed other than during regular daytime hours.

From 2009 through 2012, UCLA Medical Center had fewer nonexecutive managers earning more than \$200,000 annually than did UCSF Medical Center for three of the four years, but UCLA Medical Center exhibited more rapid growth in the number of these managers over that period. The number of employees in this classification at UCLA Medical Center who received more than \$200,000 in annual compensation nearly doubled during this period. UCLA Medical Center's senior associate director of patient affairs, human resources, and marketing stated that the increase occurred because of regular pay increases and because the maximum incentive bonus payment for these employees increased in fiscal year 2011–12 from 10 percent to 15 percent of the employee's base salary.²⁰ Together, these factors had the effect of increasing the number of managers receiving more than \$200,000 in annual compensation. Despite this growth, the proportion of managers earning more than \$200,000 annually remained lower in 2012 at UCLA Medical Center than at UCSF Medical Center. UCSF Medical Center's chief administrative and human resources officer stated that pay ranges for managers vary by campus, and the same geographic market trends that contribute to higher pay ranges for represented staff at UCSF Medical Center extend to managers' compensation as well. We confirmed that managers' pay ranges vary by campus and are specified in campus-level compensation policy.

From 2009 through 2012, UCLA and UCSF medical centers had more nonexecutive managers and nursing staff who received more than \$200,000 in annual compensation than did any of the other three university medical centers.

From 2009 through 2012, UCLA and UCSF medical centers had more nonexecutive managers and nursing staff who received more than \$200,000 in annual compensation than did any of the other three university medical centers. Additionally, UCSF and UCLA medical centers had the highest and second-highest proportions of their nursing staff exceeding the \$200,000 annual threshold over this period. However, UCI Medical Center had the greatest proportion of managers that earned more than \$200,000 annually from 2009 through 2012, with more than 13 percent being compensated above that level. This proportion was more than 12 percent at UCSF and nearly 9 percent at UCLA. As previously stated, contracted pay agreements determine differences among university medical centers in nursing staff compensation, and managers' pay is determined by campus-specific pay scales.

Although the Two Medical Centers Experienced Changes in Staffing Levels, Key Quality of Patient Care Measures Remained Stable

From fiscal years 2008–09 through 2011–12, variations in staffing levels at UCLA and UCSF medical centers did not have a noticeable effect on quality of patient care measures. During these years,

²⁰ Both universitywide and campus-specific compensation policies govern the size of these increases.

UCSF Medical Center's patient care staffing levels increased slightly, while UCLA Medical Center's decreased; management staffing levels at both locations increased. The changes in staffing levels appear not to have altered key measures of the quality of patient care and of patient satisfaction, with the indicators we reviewed either improving or remaining stable.

From Fiscal Years 2008–09 Through 2012–13, the Two Medical Centers Experienced Changes in Staffing Levels

UCLA and UCSF medical centers use more staff per patient, on average, than other hospitals do, and this practice most likely results from the relatively high complexity of the cases that these medical centers treat. One way to gauge staffing levels is to use an industry measure called *full-time equivalents per an adjusted occupied bed*, or *staff per bed*, which shows how many employees are working for each occupied hospital bed.²¹ To determine whether patient care staffing levels at the medical centers changed from fiscal years 2008–09 through 2012–13, we reviewed how many staff per bed each medical center used during those years.

UCLA and UCSF medical centers use more staff per patient, on average, than other hospitals do.

While the levels of staff per bed at each medical center were above the average for California hospitals in 2010, staffing levels at both centers changed from fiscal years 2008–09 through 2012–13. During this period, UCSF Medical Center overall staff per bed level increased moderately, while UCLA Medical Center's remained relatively flat. Because the staff per bed measure includes staff members, such as clerical staff, who are not related directly to patient care, we also reviewed staff per bed data just for patient care staff, including aides, orderlies, and registered nurses. We also reviewed staffing level trends for managers and supervisors because some managers, such as nursing supervisors, are involved in patient care.

According to OSHPD data, California hospitals used an average of 1.48 registered nurses, 0.38 aides and orderlies, and 0.43 managers and supervisors per occupied bed in 2012.²² As Table 7 on the following page reflects, at UCSF Medical Center the staffing levels of managers and supervisors and of patient care staff both increased from fiscal years 2008–09 through 2012–13. The greatest percentage increase was in the staffing levels of aides and orderlies, nontechnical personnel who provide direct nursing

²¹ Figures for staff per bed account for both inpatient and outpatient activity. *Full-time equivalents* is a measure that accounts for part-time employees' work by converting part-time hours to full-time hours. For example, if two employees work 20 hours per week, their combined work equals one 40-hour work week or one full-time equivalent.

²² OSHPD collects and disseminates information about California's health care infrastructure and health care outcomes.

care to patients; their staffing levels increased by 18 percent. In addition, the staffing levels of managers and supervisors, which includes department heads and nursing supervisors, increased during the same period by 17 percent. According to UCSF Medical Center's chief administrative and human resources officer, increases in these categories were driven primarily by the medical center's acquiring additional outpatient offices and establishing its Orthopaedic Institute. Further, he explained the staff-per-bed ratios at UCSF Medical Center appear higher than the industry standard because the medical center handles more complex cases, and the teaching component of an academic medical center can drive up the numbers.

Table 7
University of California San Francisco Medical Center's Staffing Levels
Fiscal Years 2008–09 Through 2012–13

EMPLOYEE CLASSIFICATION [†]	STAFF PER BED*					PERCENTAGE CHANGE BETWEEN FISCAL YEARS 2008–09 AND 2012–13
	FISCAL YEAR					
	2008–09	2009–10	2010–11	2011–12	2012–13	
Aides and orderlies	0.66	0.72	0.73	0.77	0.78	18%
Managers and supervisors	0.65	0.66	0.69	0.75	0.76	17
Registered nurses	2.16	2.18	2.24	2.35	2.27	5

Source: California State Auditor's analysis of unaudited University of California San Francisco Medical Center data.

* Full-time equivalents per adjusted occupied bed, or staff per bed, is a common statistic in the health care industry that indicates how many staff are working per bed in use at a hospital.

[†] We selected the classifications *aides and orderlies* and *registered nurses* because they have significant involvement with direct patient care. We also selected the *managers and supervisors* category because some managers and supervisors are involved in patient care.

At UCLA Medical Center, as Table 8 shows, staffing levels for managers and supervisors increased by 6 percent from fiscal years 2008–09 through 2012–13, while the levels of patient care staff decreased; aides and orderlies experienced the greatest decline, with a 6 percent drop. According to UCLA Medical Center, case and risk managers added to provide patient assistance and to help lower readmission accounted for a large portion of the staffing increase in the *managers and supervisors* category. Also, UCLA Medical Center staff stated that the home health program ended in fiscal year 2009–10 and that the medical center reduced the number of registered nurses as a result. Further, UCLA Medical Center also stated that this staffing-level measure does not consider the changes in the complexity of the case mix, also known as the case mix index.

Table 8
University of California Los Angeles Medical Center’s Staffing Levels
Fiscal Years 2008–09 Through 2012–13

EMPLOYEE CLASSIFICATION [†]	STAFF PER BED*					PERCENTAGE CHANGE BETWEEN FISCAL YEARS 2008–09 AND 2012–13
	FISCAL YEAR					
	2008–09	2009–10	2010–11	2011–12	2012–13	
Aides and orderlies	0.89	0.83	0.82	0.86	0.84	(6%)
Managers and supervisors	0.52	0.53	0.52	0.53	0.55	6
Registered nurses	2.32	2.19	2.23	2.29	2.27	(2)

Source: California State Auditor’s analysis of unaudited University of California Los Angeles Medical Center data.

* Full-time equivalents per adjusted occupied bed, or staff per bed, is a common statistic in the health care industry that indicates how many staff are working per bed in use at a hospital.

† We selected the classifications *aides and orderlies* and *registered nurses* because they have significant involvement with direct patient care. We also selected the *managers and supervisors* category because some managers and supervisors are involved in patient care.

Changes in Staffing Levels Apparently Did Not Affect Key Patient-Care Quality Measures at Either Medical Center

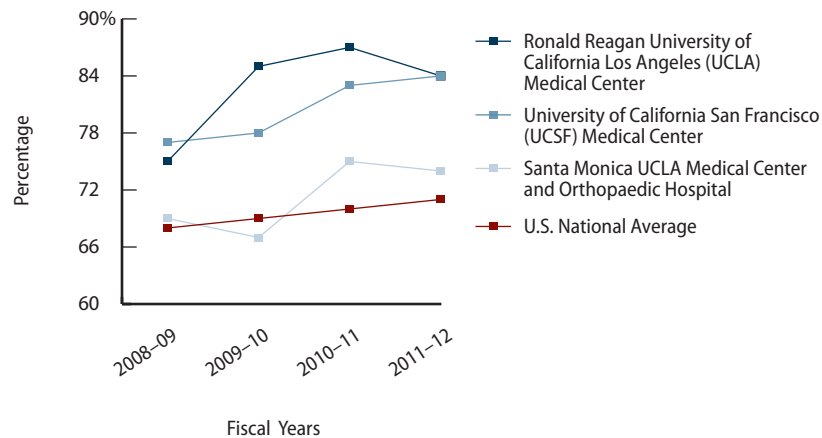
Indicators of patient satisfaction and patient-care quality we reviewed generally remained stable or improved at UCLA and UCSF medical centers from fiscal years 2008–09 through 2011–12. To determine whether patient-care quality changed during our audit period, we reviewed data for UCLA and UCSF medical centers compiled by the federal Centers for Medicare and Medicaid Services (CMS).²³ The CMS data include information for hospitals nationwide and provide information on patient satisfaction and measures of the quality of patient care.

For the period we audited, changes in staffing levels at UCLA and UCSF medical centers did not negatively affect patient satisfaction or the patient-care quality measures we reviewed. According to CMS patient survey data, patient satisfaction improved at both medical centers from fiscal years 2008–09 through 2011–12. For example, as illustrated in Figure 5 on the following page, the percentage of UCSF Medical Center patients indicating they would definitely recommend the hospital to friends and family increased from 77 percent to 84 percent for the period we reviewed. This statistic also increased at Ronald Reagan UCLA Medical Center and Santa Monica UCLA Medical Center and Orthopaedic Hospital.

²³ CMS collects, analyzes, and distributes key information on hospital performance and quality to help improve hospitals’ quality of care. From all of CMS’s quality of care measures, we selected for our analysis the two categories of measures—patient satisfaction and patient-care quality—that generally had complete data for all four years from 2009 through 2012.

Further, as Figure 5 shows, both UCLA and UCSF medical centers generally scored higher on patient satisfaction than the average rate for U.S. hospitals. In addition, although not shown in Figure 5, UCLA and UCSF medical centers improved in other patient satisfaction categories, such as patients always receiving help from hospital staff as soon as they wanted and staff always explaining medicines before giving them to patients.

Figure 5
Percentages of Patients at University of California Los Angeles and University of California San Francisco Medical Centers Who Would Definitely Recommend the Hospitals to Others
Fiscal Years 2008–09 Through 2011–12



Source: Data from the *Hospital Compare* function on the federal Medicare Web site.

Note: UCLA Medical Center includes the Ronald Reagan UCLA Medical Center and the Santa Monica UCLA Medical Center and Orthopaedic Hospital. UCLA Medical Center reports data for these two entities separately. UCLA Medical Center does not report this type of data for Resnick Neuropsychiatric Hospital, which operates under a different category of license than UCLA Medical Center's other facilities.

In contrast to the clear improvements in the patient satisfaction measures over the last several years at UCLA and UCSF medical centers, measures of the quality of patient care remained relatively stable, with only small increases and decreases in the different measures. Generally, the changes in the measures we evaluated were not significant. For UCSF Medical Center and for UCLA Medical Center's two major facilities—Ronald Reagan UCLA Medical Center and Santa Monica UCLA Medical Center and Orthopaedic Hospital—we reviewed the data for all six patient-care quality measures available from CMS for fiscal years from 2008–09 through 2010–11 or 2011–12, whichever was the most recent year for which CMS had data available for each measure.²⁴ As Table 9 shows, although the rates for the measures at

²⁴ Although CMS has data for other measures of patient-care quality, only six measures from CMS generally had complete data for all four years of the period we reviewed.

the different facilities varied during these years, none of the measures changed by more than 2 percentage points, and all the measures were generally near or better than the national averages for the most recent fiscal year for which CMS data were available.

Table 9
Changes in Measures of the Quality of Patient Care at University of California Los Angeles and University of California San Francisco Medical Centers
Fiscal Years 2008–09 Through 2011–12

	FISCAL YEAR		PERCENTAGE POINT CHANGE
	2008–09	2011–12	
U.S. National Average			
Heart failure death rate	11.1%	11.7%	0.6%
Heart attack death rate	16.6	15.2	(1.4)
Pneumonia death rate	11.5	11.9	0.4
Heart failure readmission rate*	24.5	24.8	0.3
Heart attack readmission rate*	19.9	19.8	(0.1)
Pneumonia readmission rate*	18.2	18.4	0.2
University of California San Francisco (UCSF) Medical Center			
Heart failure death rate	9.4	11.3	1.9%
Heart attack death rate	15.9	15.7	(0.2)
Pneumonia death rate	10.0	11.2	1.2
Heart failure readmission rate*	25.2	25.4	0.2
Heart attack readmission rate*	20.6	21.0	0.4
Pneumonia readmission rate*	17.7	16.7	(1.0)
Ronald Reagan University of California Los Angeles (UCLA) Medical Center			
Heart failure death rate	9.3	8.2	(1.1%)
Heart attack death rate	13.6	14.0	0.4
Pneumonia death rate	8.6	8.6	0
Heart failure readmission rate*	23.0	22.9	(0.1)
Heart attack readmission rate*	19.4	18.9	(0.5)
Pneumonia readmission rate*	19.1	19.5	0.4
Santa Monica UCLA Medical Center and Orthopaedic Hospital			
Heart failure death rate	9.0	8.5	(0.5%)
Heart attack death rate	14.4	13.9	(0.5)
Pneumonia death rate	9.5	8.6	(0.9)
Heart failure readmission rate*	24.9	24.8	(0.1)
Heart attack readmission rate*	20.8	19.4	(1.4)
Pneumonia readmission rate*	18.1	18.6	0.5

Source: California State Auditor’s analysis of data from the *Hospital Compare* function on the federal Medicare Web site.

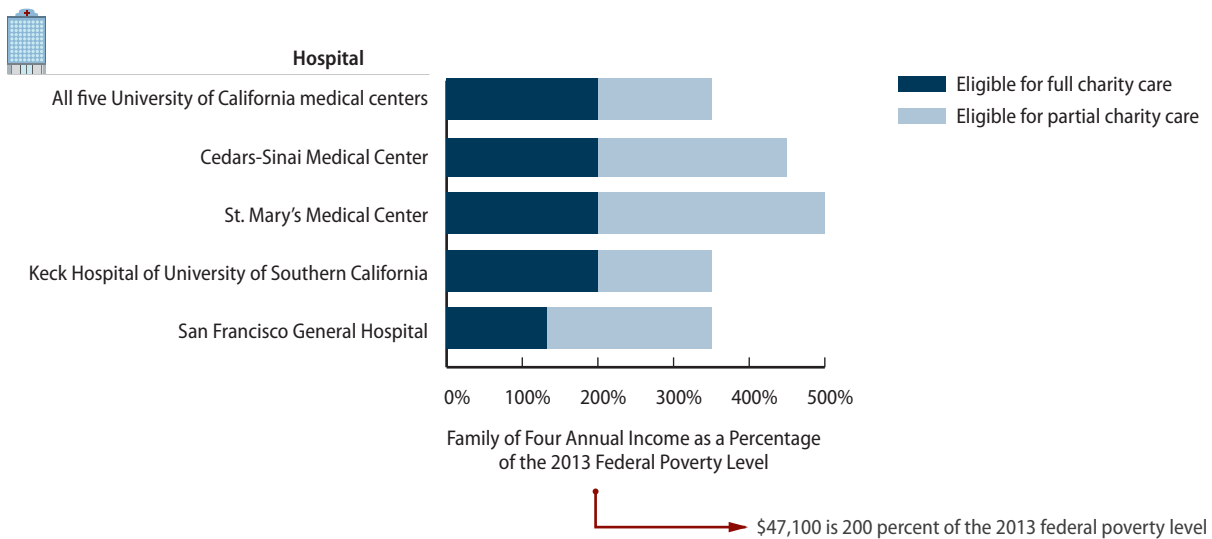
Note: UCLA Medical Center includes the Ronald Reagan UCLA Medical Center and the Santa Monica UCLA Medical Center and Orthopaedic Hospital. UCLA Medical Center reports data for these two entities separately. UCLA Medical Center does not report this type of data for Resnick Neuropsychiatric Hospital, which operates under a different category of license than UCLA Medical Center’s other facilities.

* Because readmission-rate data were not available for fiscal year 2011–12, the table lists the data from fiscal year 2010–11, which was the most recent information available during our review.

UCLA and UCSF Medical Centers Meet the Limited State Requirements Concerning Charity Care

Not only have key measures of patient-care quality at UCLA and UCSF medical centers generally remained stable over the last four years, but the two medical centers have also followed state requirements for reporting their activities concerning their provision of *charity care*, which is free or discounted health care provided to certain patients. State law requires that California hospitals develop and submit to OSHPD their financial assistance policies for charity care, and OSHPD requires that the hospitals report the amount of charity care they provide each year in annual financial disclosure documents. Figure 6 provides a snapshot of the full and partial charity care levels for all university medical centers and selected other hospitals.

Figure 6
Percentages of Federal Poverty Levels That University of California Medical Centers and Other California Hospitals Use to Qualify Patients for Full or Partial Charity Care

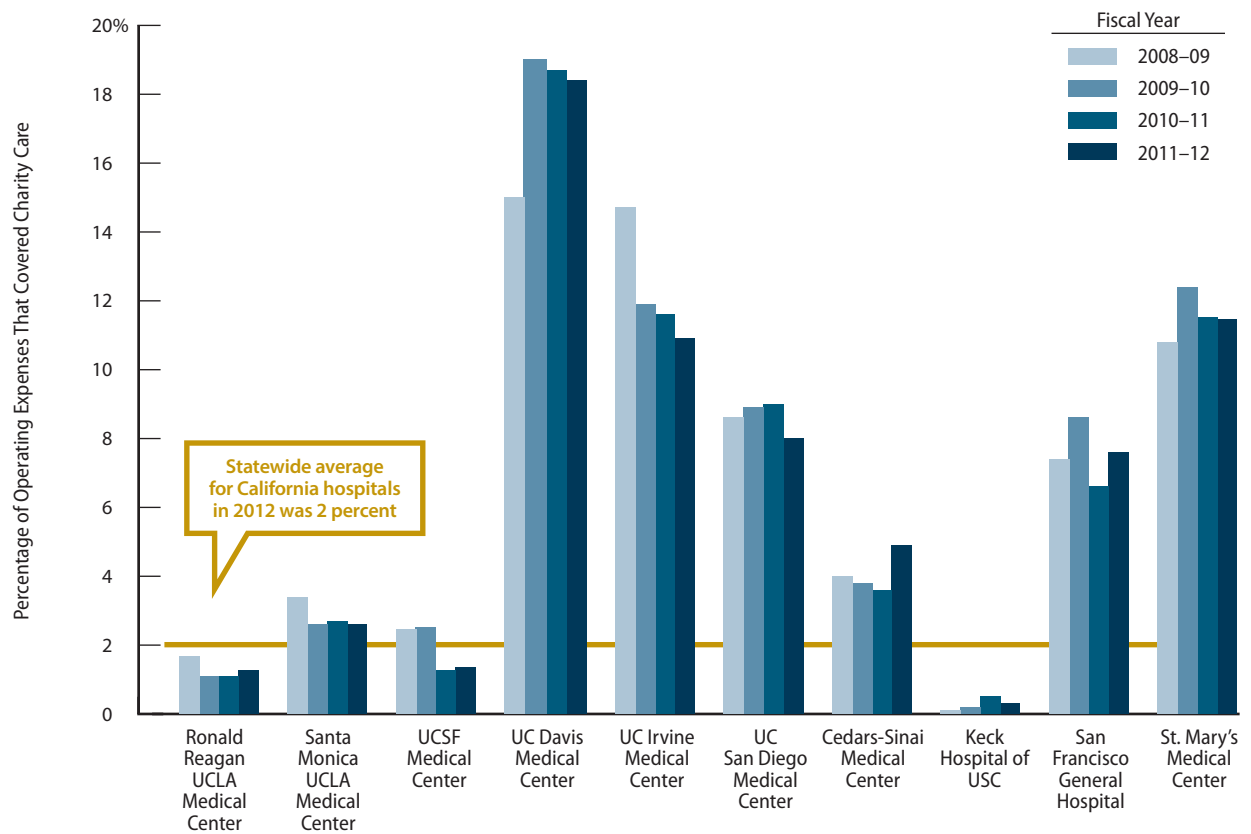


Sources: The most recent charity care policy for each of the hospitals listed and the 2013 federal poverty level guidelines listed on the Web site for the U.S. Department of Health and Human Services.

From fiscal years 2008–09 through 2011–12, UCLA and UCSF medical centers reported less charity care as a percentage of operating expenses than did the other three university medical centers or other facilities that are not part of the university, as Figure 7 illustrates. This figure also shows that, with the exception of Ronald Reagan UCLA Medical Center and the most recent

two years depicted for UCSF Medical Center, the two medical centers were usually near the 2012 statewide average of approximately 2 percent on this measure for the years we reviewed.

Figure 7
Amounts of Charity Care as a Percentage of Operating Expenses at University of California and Other California Medical Centers
Fiscal Years 2008–09 Through 2011–12



Source: California State Auditor’s analysis of data from the California Office of Statewide Health Planning and Development (OSHPD).

Note: The charity care amounts used in the calculations are from the financial disclosures provided to OSHPD by each of the medical centers and hospitals. *Charity care* is free or discounted health care provided to certain patients.

The disparities in reported charity care between the university medical centers may reflect the patient populations they serve. That is, less of the patient populations served by UCLA and UCSF medical centers may be eligible for charity care than the populations served by the three other university medical centers. Certain demographic data compiled by OSHPD tend to support this possibility. As Table 10 on the following page shows, the percentages of inpatients in 2012 who lived within five miles of UCLA and UCSF medical centers and met the requirements for

free full charity care were quite a bit lower than the percentages for local patients qualified for such care who were admitted to the other three medical centers. Thus, higher numbers of inpatients from low-income families may be admitted to Davis Medical Center, UCI Medical Center, and UCSD Medical Center because those facilities are the closest hospitals to their residences. Additionally, according to correspondence to OSHPD from Davis Medical Center—whose charity care as a percentage of its operating expenses is well above the levels of charity care at the other medical centers, as shown in Figure 7—it is the largest single hospital provider of care to the Medicaid and safety-net population in the Sacramento region.

Table 10
Inpatients at University of California Medical Centers in 2012
Who Lived Within Five Miles of the Center That Admitted Them
and Who Qualified for Full Charity Care

MEDICAL CENTER	PERCENTAGE OF INPATIENTS WITH INCOMES UNDER OR EQUAL TO 200 PERCENT OF THE FEDERAL POVERTY LEVEL
University of California (UC) Davis Medical Center	42%
UC San Diego Medical Center	40
UC Irvine Medical Center	34
Santa Monica UC Los Angeles (UCLA) Medical Center and Orthopaedic Hospital	26
Ronald Reagan UCLA Medical Center	24
UC San Francisco Medical Center	22

Source: Data from the California Office of Statewide Health Planning and Development's *Healthcare Atlas*.

The federal Patient Protection and Affordable Care Act (act) will provide insurance to many previously uninsured Californians, in some cases providing payments for services that may previously have been classified as charity care. According to the university, the medical centers will likely be affected by the coverage expansion provisions of the act that go into effect in 2014, creating pressure on the medical centers to care for more patients without additional financial resources. However, the effect of this legislation on the medical centers is not yet determinable.

Recommendation

The university should take steps to increase the transparency of its campuses' health system support transfers. Specifically, the university should establish a process ensuring that it annually issues a report through its Web site that is available to the public and that describes the financial and programmatic impact of each campus's health system support transfers.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: January 30, 2014

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January 8, 2014

Ms. Elaine M. Howle, CPA, State Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

Dear Ms. Howle:

On behalf of the University of California, UCLA Medical Center, and UCSF Medical Center, thank you for the opportunity to review and comment on the audit report, *UCLA and UCSF Medical Centers: Although They Supply Significant Monetary Support to Their Campuses' Schools of Medicine, Their Finances and Key Measures of Patient Care Quality Have Remained Stable*. The University appreciates your staff's extensive work in collecting information and analyzing the many complex factors that are part of the issues raised in this audit. We are gratified that the exhaustive reviews conducted by your staff did not result in any problematic findings, and we commit to a timely action plan in response to the report's recommendation.

We wish to point out our unqualified agreement with the following findings from the report:

- UCLA and UCSF Medical Centers achieved positive financial results for the fiscal years examined under the scope of the audit, but also supplied continuously increasing levels of financial support to their respective campuses' medical schools over this time.
- Constitutional authority has been granted to the University of California Board of Regents regarding general oversight and governance of University finances. This authority extends specifically to the direction of University-generated funds originating from its medical centers.
- The medical centers demonstrated compliance with Universitywide policies and procedures intended to ensure that highly compensated employees are appropriately compensated.
- Although there is variation in compensation levels for senior executives across the five UC medical centers, senior executive average annual compensation at UCLA and UCSF Medical Centers was lower than benchmarks obtained by a sampling of non-UC medical centers of comparable size and quality ranking, such as Cleveland Clinic, Cedars-Sinai Medical Center, and The Hospital of The University of Pennsylvania, as noted in the report.
- Changes in staffing levels at the medical centers did not have a negative impact on the patient satisfaction and patient-care quality measures reviewed by the audit team.

We concur with the report's finding that over 95 percent of medical center revenues result from compensation for patient-care services. In addition, we wish to point out that the other material remaining sources include interest income, federal subsidies for bond interest, and proceeds from the Hospital Fee Program (a redistributive tax on private hospitals that is earmarked for enhancing Medi-Cal reimbursement for all hospitals in California).

Ms. Elaine M. Howle

January 8, 2014

Page 2

Regarding the audit's findings on numbers of employees earning in excess of \$200,000 per year, we agree with the content of the report but wish to offer additional perspectives:

- Cross-regional comparisons of this nature are challenging due to general labor market variability. For example, the San Francisco metropolitan area has one of the highest medical care wage indexes in the country.
- As Tables 5 and 6 of the report indicate, the numbers of employees earning above \$200,000 per year increased at UCLA and UCSF Medical Centers. We believe, however, that it is noteworthy to consider the following breakdown in percentage increases in employees earning more than \$200,000 from 2009 to 2012 by job category, derived from Table 6 of the report:
 - Executives: 16.7 percent more employees from 2009 to 2012.
 - Non-executive management, administration, and IT staff: 50.0 percent more employees from 2009 to 2012.
 - Clinical staff: 158.6 percent more employees from 2009 to 2012.

Thus, the largest increases in this measure applied to staff directly devoted to patient care.

With respect to charity care, we agree with the report's findings, but wish to offer additional background information that we believe policymakers may find of interest:

- We concur that UCLA and UCSF Medical Centers have followed State requirements regarding charity care, which consist mainly of submitting financial assistance policies and reporting amounts of charity care provided.
- We concur that charity care volume at UCLA and UCSF is proportionally lower than at the other UC medical centers, and that this discrepancy reflects differences in patient populations.

However:

- California Welfare & Institution Code 14166.1 establishes that 22 hospitals consisting of county health systems and UC medical centers are "Designated Public Hospitals," and are eligible for certain funding advantages under California's Medi-Cal Demonstration Projects (past, current, and prospective). This designation reflects the roles that these 22 hospitals play in serving uninsured, underinsured, and Medi-Cal populations, often referred to collectively as the "safety net population."
 - In the areas served by UC Davis, UC Irvine, and UC San Diego, UC medical centers are the only such Designated Public Hospitals.
 - In Los Angeles and San Francisco, this role is shared between UC medical centers and county health systems, i.e. Los Angeles County Health Services, and San Francisco General Hospital.
 - The above-referenced shared roles in serving the safety net population in Los Angeles and San Francisco, which are not applicable in the other UC medical centers' service areas, contribute to the result that other UC medical centers provide a higher proportion of charity care than do UCLA and UCSF. Note, however, that UCLA and UCSF Medical Centers also receive comparatively less advantageous treatment under the Medi-Cal Waiver Program Disproportionate-Share Hospital (DSH) reimbursement formula than is available to the other Designated Public Hospitals, including the other UC medical centers.
- An aspect of the charity care issue that may be helpful for interested parties to consider is that under hospital financial reporting standards, charity care is defined quite specifically, and does not include certain other instances where reimbursement to a medical center may fall far below

Ms. Elaine M. Howle
January 8, 2014
Page 3

the expenses related to delivering care, such as uncollectible accounts, below-cost reimbursement levels for indigent persons, etc. Thus, charity care as defined for financial reporting purposes represents only one facet of a given medical center's level of support to the safety net population.

- The medical center financial reports reviewed by the audit team, and the accurate conclusions that the audit team drew from these reports, nevertheless do not reflect the significant roles played by UC medical school faculty in supplying physician resources to non-UC Designated Public Hospitals. UCLA and UCSF medical school faculty comprise significant proportions of the physician admitting staff at Los Angeles County Health Services and San Francisco General Hospital, thus extending their campuses' contributions to provision of care to the safety net population beyond what is directly associated with the medical centers.

The report's concluding recommendation is that the University of California should take steps to increase the transparency of its campuses' health system support transfers, i.e. funds transferred from medical centers to support medical school functions and programs. We wish to offer additional clarifying comments regarding this recommendation:

- We understand from the report that this recommendation is a matter of process transparency enhancement, and is not in response to any evidence of inappropriate transactions.
- Under the current oversight process, the UC Board of Regents delegates operational responsibility for the medical centers and medical schools through the President to the campus Chancellors. Financial transactions between the medical centers and medical schools are reviewed at this level and reported in accordance with accounting standards typical for academic medical centers.

The above clarifications notwithstanding, the University of California accepts this recommendation to enhance its health system support transfer reporting process and commits to an action plan that will include issuance of an annual disclosure that will fulfill the recommendation. We commit further that the first such report of this nature will be made available no later than December 31, 2014.

In closing, we support the findings of this audit for the purpose of improving the public's understanding of our operations and facilitating accountability to our stakeholders. I want to express our appreciation to the management and staff of the California State Auditor for their professional efforts in conducting this audit. The interactions in the course of this audit were collaborative and informative for the University of California, and we hope they were equally productive for the office of the California State Auditor.

Yours very truly,


Janet Napolitano
President

cc: Chancellor Block
Chancellor Desmond-Hellmann
Senior Vice President and Chief Compliance & Audit Officer Vacca
David Feinberg MD, CEO UCLA Medical Center
Mark Laret, CEO UCSF Medical Center

cc: Members of the Legislature
Office of the Lieutenant Governor
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