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ABSTRACT

This audit report addresses the compliance of the Clinical Practice Management Plan at the Health Science Center (HSC) at Brooklyn with policies established by the State University of New York (SUNY) Board of Trustees. An executive summary highlights the scope of the audit, audit observations and conclusions, and comments of SUNY officials. An introductory section then gives background information and an explanation of the audit scope, objectives, and methodology. The next section examines Practice Plan expenditures noting personal expenses, transfer of funds, inadequately documented costs, and support services. Inappropriate expenditures of the President's Fund are then summarized. The final section reviews billing and revenue including billing procedures, transfers to the President's Fund, reported revenue, and net income. The audit examined a 2-month sample of transactions and found use of clinical practice income for non-business related expenses, lack of adequate documentation of Plan disbursements, inappropriate transfers of Plan funds to foundations controlled by related department chairmen, inappropriate expenditures of the President's Fund, and a lack of controls over Plan revenues. Appendices list the major contributors to the report and comments of SUNY officials. (DB)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 93-S-82

Dr. Joseph C. Burke
Interim Chancellor
State University of New York
State University Plaza
Albany, New York 12246

Dear Dr. Burke:

The following is our report on selected aspects of the State University of New York Health Science Center at Brooklyn's Clinical Practice Management Plan.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law.

This report was prepared under the direction of Frank J. Houston, Audit Director. Major contributors are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

August 17, 1994

Executive Summary

SUNY Health Science Center at Brooklyn Clinical Practice Management Plan

Scope of Audit

The Health Science Center at Brooklyn (Center) is operated by the State University of New York (SUNY) and includes a hospital, three colleges, and a graduate school. Faculty at the College of Medicine (College) have both teaching and research responsibilities and may also augment their income by providing medical care to patients. The Center's Clinical Practice Management Plan (Plan) regulates the income generated by these faculty. The SUNY Board of Trustees (Trustees) has set forth policies and procedures for the operation of clinical practice management plans at all SUNY medical colleges. The responsibility for the operation of the Center's Plan rests with a Governing Board. The Plan generated revenues totaling approximately $32 million in both 1991 and 1992.

Our audit addressed the following question about the Center's Clinical Practice Management Plan:

- Are the policies promulgated by the SUNY Board of Trustees being complied with?

Audit Observations and Conclusions

The Trustees' policies require that payments for clinical practice costs must be in accordance with generally accepted accounting principles and allowable under current Federal Internal Revenue Service (IRS) guidelines. Also, any Plan income remaining after all Plan obligations have been met is to be used for the benefit of the College of Medicine.

We audited a judgmental sample of transactions that occurred during two months in both 1991 and 1992, and during the first two months of 1993 and found that some of the Center's medical service groups use clinical practice income for costs that are contrary to the Trustees' policies. For example, the Obstetrics\Gynecology group used Plan funds for non-business-related expenses. The group bought tickets costing $9,460 for the U.S. Open Tennis Championship and $3,290 for events at Madison Square Garden. The group also paid for physician membership in the Center's gym. (See p. 5)

We also found many instances where the groups did not adequately document Plan disbursements. For example, the Obstetrics/Gynecology group spent over $39,000 for automobile expenses during the six months we reviewed, but did not document that it was for business-related purposes. (See pp. 6-7)

Some groups transfer significant amounts of Plan funds to foundations controlled by the related department chairmen to be used for education and research. In 1991, the Surgery group transferred $445,232 to the Foundation for Surgical Education and Investigation, Inc. The Medicine group transferred more than $281,000 to department-related foundations during the period January 1, 1991 through February 18, 1993. The use of Plan funds in this manner is not in accordance with the Trustees' policies or the intent of the Plan. (See pp. 7-8)

The Trustees' policies require that 5 percent of gross Plan income is to be deposited into a fund that is used to benefit the College of Medicine. The Center deposits this money into the President's Fund (Fund). Total disbursements from the Fund during the period January 1, 1991 through February 28, 1993 were $4.1 million. We identified a number of inappropriate expenditures made with Fund monies. For instance, more than $65,000 from the Fund was used to cater luncheons, dinners, meetings and parties. This included $17,067 for December 1991 and 1992 holiday parties. (See p. 11)

The Center also used the Fund to pay one of its former vice presidents $20,000 ($200 per hour) for on-site and telephone consultations intended to help his successor deal with major tasks that had been initiated during the former vice president's tenure. The Fund was also used to pay $65,000 to the new Dean of the College for his relocation from Syracuse to Brooklyn. We found that the Dean used a substantial part of these funds to purchase a cooperative apartment, a personal expense not related to the purpose of the Fund. (See p. 12)

During our 26-month audit period, about $1 million from the Fund was expended for the benefit of Center activities other than the College of Medicine. The Center maintains that the interrelationship between the College of Medicine and the University Hospital makes it acceptable to expend President's Fund clinical practice monies for other University Hospital needs. We believe Board of Trustees' policy needs clarification to address this contention. (See pp. 12-13)

Lastly, we found that the controls over Plan revenues need strengthening. We found that groups consistently underreport their income and transfer monies to the Fund late. As of December 31, 1991, the Plan had accumulated a total of $2.1 million, some of which should have been transferred to the Fund to be used to benefit the College. (See pp. 15-17)

Comments of SUNY Officials

SUNY officials believe that the Center's Plan is in compliance with the policies promulgated by the SUNY Board of Trustees; although they do concur that the policies need clarification. Officials also agree with the need for better documentation of Plan expenditures. They state that the Center is fully committed to implementing all our recommendations.

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Introduction

Background

The Health Science Center at Brooklyn (Center) is one of four health science centers operated by the State University of New York (SUNY) and includes a hospital (University Hospital), three colleges, and a graduate school. Faculty at the Center's College of Medicine (College) have both teaching and research responsibilities and may augment their income by providing medical care to patients. SUNY officials state that this additional income makes SUNY salaries more competitive and comparable with peer institutions. This makes it possible for SUNY to offer qualified physicians an incentive to take teaching positions at its medical schools. However, to help ensure that clinical faculty devote sufficient time to their primary objective of teaching, the total amount of compensation that they can receive for patient care is limited. The Center's Clinical Practice Management Plan (Plan) regulates the patient care income generated by these faculty.

The SUNY Board of Trustees (Trustees), in an agreement with New York State and the United University Professions, Inc. (the negotiating unit that represents the physicians), has set forth policies and procedures for the operation of clinical practice management plans at all SUNY medical colleges. For example, the policies and procedures cover criteria for plan membership, billing systems, and the methodology for disbursing plan income, which is expected to observe the following requirements:

- Five percent of the gross clinical practice income is to be deposited into a fund that is to be used for the benefit of the College of Medicine.

- Expenses incurred by doctors in their performance of clinical services are to be reimbursed.

- Compensation is to be distributed to plan members.

- Any net income remaining after all plan obligations have been met is to be used for the benefit of the College of Medicine.

The Center's Plan does not have a centralized accounting or billing system. Its operations are organized on a departmental basis. The physicians have established medical service groups in 18 departments, some of which handle their accounting transactions under the auspices of either the Research Foundation of SUNY or department-related accounts. The responsibility for the operation of the Center's Plan rests with a Governing Board. On an annual basis, Plan members in each clinical department elect representatives to the Governing Board. The campus President and Dean of the College of Medicine are ex officio members of the Governing Board. The Governing Board has the authority to promulgate operating procedures, issue guidelines for spending clinical practice income, prepare reports on Plan activity, and review accounts. It may take no action that is inconsistent with the educational mission of the College.

The Trustees have stipulated that 5 percent of the clinical practice income earned by the faculty is to be deposited into a fund to be used for the benefit of the College of Medicine. The policy of the Center is to place these monies into an account called the President's Fund (Fund). During 1991 and 1992, the Fund received $1.9 million and $1.6 million, respectively. Total disbursements from January 1, 1991 through February 28, 1993 were $4.1 million. As of February 28, 1993, the Fund balance was $4.9 million.

Approximately 325 physicians are members of the Plan at the Center. They generated approximately $32 million in revenues in both 1991 and 1992.

Audit Scope, Objectives and Methodology

We audited selected practices related to the Center's Clinical Practice Management Plan operations for the period January 1, 1991 through February 28, 1993. The primary objective of our audit was to determine the extent of the Plan's compliance with the Trustees' policies. To accomplish our objective, we reviewed applicable policies, procedures, rules and regulations; interviewed Plan, group and Center managers; and reviewed records pertaining to Plan and Fund financial transactions.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand the internal control structure of the Plan and President's Fund and their compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Practice Plan Expenditures

The Trustees' policies have placed the following stipulations on the disbursement of Plan income:

- Payments for clinical practice costs must be in accordance with generally accepted accounting principles and allowable under current Federal Internal Revenue Service (IRS) guidelines.

- Any Plan income remaining after all Plan obligations have been met is to be used for the benefit of the College of Medicine.

The Plan spent $33 million in 1991 and approximately $34 million in 1992, for clinical, administrative and professional expenses; physician compensation; transfers for the use of Hospital premises; etc. We audited a judgmental sample of transactions that occurred during two months in both 1991 and 1992, and during the first two months of 1993, and found that some physician groups use clinical practice income for purposes that are contrary to the Trustees' policies.

Personal Expenses

Some groups at the Center have used Plan funds to pay for what appears to be non-business-related (personal) expenses of their employees or physicians.

For example, the Obstetrics\Gynecology group bought tickets costing $9,460 for the U.S. Open Tennis Championship and $3,290 for events at Madison Square Garden. The group also paid for physician membership in the Center's gym. Representatives of the Obstetrics\Gynecology group expressed the belief that these were justifiable expenses because they benefited or compensated the group's employees. But as benefits, they should be reported as compensation on the W-2 forms of the rewarded individuals. This was not done. Also, we do not believe these expenses are necessary for the practice of medicine.

IRS guidelines state that the expenses for meals during regular work hours are not deductible. When State employees receive reimbursement for meal expenses and are not on travel status, that cost is included as compensation on their W-2 forms. On May 29, 1992, the Obstetrics\Gynecology group paid one physician $600 for the breakfasts and lunches he ate at the University Hospital that month. These expenses are personal and should not be paid with Plan monies.

Several groups reimburse employees or pay vendors for physician automobile expenditures. We found disbursements for automobile leases, insurance, repairs and gasoline. The IRS allows such a deduction if there is a business purpose for it. However, a deduction is specifically not permitted for expenses incurred during travel to or from an employee's regular workplace. The Center is the primary work place for many Plan physicians employed by the Center. Commutation between home and the facility is, therefore, not a deductible expense.

In one month during the audit period, the Anesthesiology group spent almost $4,500 in automobile costs. Several of these disbursements were for monthly lease payments. The group provided no documentation that these expenses were necessary for the physicians' medical practices. The group administrator told us he felt these were reasonable expenditures because the physicians needed their cars to travel between the University Hospital and other locations. However, we found expense claims for gasoline purchases made outside of Brooklyn by physicians who only traveled between the University Hospital and another Brooklyn Hospital. This would indicate that these vehicles were not used solely for traveling between the two hospitals. While these automobile costs may be justified, a record should be maintained of vehicle usage to ensure that the group does not reimburse the physicians for their commutation or any other personal use of these automobiles.

During the six months that we sampled, the Obstetrics\Gynecology group spent more than $39,000 on automobile usage; but maintained no logs or other documentation indicating the business necessity for these expenses. Plan officials believe the cars are necessary for after-hours travel from the doctors' homes to the University Hospital. We agree that such an expense is appropriate; however, the physicians must maintain documentation to support their business use of these vehicles.

We did observe that some of the automobiles were unusually expensive; and some of the uses appeared to be personal or were not adequately documented. For example, we found:

- leases of automobiles at monthly charges of more than $1,000;

- an annual auto insurance payment for one physician totaling $3,237 with no documentation to indicate whether it was for just one vehicle or several;

- a $56.85 reimbursement to one physician for three separate gasoline purchases made on the same day;

• a $1,192 reimbursement to one physician for car repairs in March 1991, as well as another $822 reimbursement to the same physician for repairs to a different car just two months later;

• a $55 check issued to the New York City Parking Violations Bureau in January 1993 for a doctor's parking ticket; and

• an instance where a physician was reimbursed on May 31, 1991 for eight gasoline purchases, although the documentation submitted to support the purchases was dated June 1991.

The Trustees' policies stipulate that any net income remaining after all clinical practice obligations have been met must be used for the benefit of the College of Medicine. If clinical practice income is used for personal expenditures, a smaller amount of net income will be available to benefit the College. SUNY officials state, however, that these monies may not go to the College as they could be included as part of the physicians' direct compensation if the physician had not received the maximum allowable compensation under the Plan.

Transfer of Funds

According to the Trustees' policies, Plan monies must be disbursed only for clinical practice costs. But we found that some groups transfer a significant amount of money to foundations for purposes that have no direct relationship to their medical practices.

Plan officials disclosed to us that certain groups transfer a substantial portion of the clinical practice income to foundations controlled by the department chairmen. Group officials stated that the funds transferred from the Plan are used for education and research (we did not audit these foundations to determine how the funds were expended). The following are typical examples of the Plan income being transferred to the foundations:

• The Surgery group transfers 10 percent of its clinical practice income to the Foundation for Surgical Education & Investigation, Inc. (FSEI). (On the Plan's 1991 financial statements, the $445,232 transferred to FSEI was incorrectly reported as transferred to the Research Foundation of SUNY.)

• The Medicine group transferred more than $281,000 to a similar department-related foundation during the audit period.

• The Rehabilitation Medicine group also transferred some clinical practice income to another foundation.

We do not believe it is in accordance with the Trustees' policies to disburse Plan funds to educational and research foundations, since these foundations have no direct relationship to the physicians' clinical activities. The intent of the policies is that net income be used for the College of Medicine. Therefore, these funds should be transferred to the President's Fund where they will be available for the general benefit of the College.

Inadequately Documented Costs

The IRS requires the groups to keep records that clearly justify expenses. We found many instances in which they had maintained no documentation that would support their disbursements of clinical practice income.

For the Obstetrics\Gynecology group, we found total expenditures of more than $59,000 for which there was inadequate or no documentation:

- The group spent $17,000 on travel expenditures that were not adequately documented. Although it is clear that some of the physicians traveled to Washington, D.C., Atlanta, New Orleans, and the European cities of Rome, Italy and Paris, France supporting documentation often did not indicate the reason for the travel, nor was it sufficient to substantiate the expenditure.

- The group expended $42,000 on other items for which there was no supporting documentation. Most of the checks involved in these expenditures were payable to individual physicians in the group.

For the Anesthesiology group, we found inadequate or no documentation for expenditures made in July 1992 that totaled more than $10,500:

- The group reimbursed a physician about $1,250, although there was no documentation to support the expense. Subsequently, SUNY officials provided a verbal explanation that the reimbursement was for two business dinners which were held to discuss research projects.

- The group reimbursed another physician for a $330 airline ticket used for a personal trip.

- The group expended $9,000 on other items for which there is no supporting documentation. Some of the checks were payable to physicians and other individuals.

Support Services

A good system of internal controls requires that payroll-related disbursements be based on properly-approved attendance records that are authorized appropriately.

All of the groups hire individuals to provide support services. Several of these individuals are also Center employees. The Center requires its employees to file time sheets with its Payroll Unit in order to be paid, but we identified several Center employees for whom there are no records to document the time they worked for the group. These include:

- three individuals working in the Surgery group, whose services cost approximately $19,000 on an annual basis;
- two employees working in the Rehabilitation Medicine group, whose services cost approximately $10,335 annually; and
- a key official of the Obstetrics\Gynecology group.

Group managers told us that some of these individuals perform duties at home. However, since there are no time records for these employees, there is a high risk that payroll costs do not reflect the actual time worked for the Plan.

Recommendations

1. In conjunction with SUNY Central Administration, formulate detailed guidelines covering the use of clinical practice funds.
2. In conjunction with the Plan's Governing Board, develop expenditure controls to ensure compliance with promulgated guidelines.
3. Ensure that Plan expenditures are only for business purposes and are adequately documented.
4. Ensure that group employees document time worked and services performed.

President's Fund Expenditures

Five percent of the gross clinical practice income is to be deposited into the President's Fund to be used to benefit the College of Medicine. Disbursements from the Fund require the approval of the President or the Acting Vice President for Finance and Administration. Total disbursements from the Fund between January 1, 1991 and February 28, 1993, were $4.1 million. As of February 28, 1993, the Fund cash balance was $4.9 million.

We selected a sample of disbursements totaling $2.6 million that were made during the period January 1, 1991 to February 28, 1993. This sample included all the expenditures between January 1, 1992 and February 28, 1993, as well as a group of both large and small disbursements from 1991.

We found that about one-half of the disbursements reviewed were not for the benefit of the College. Some were for academic or support units other than the College of Medicine. A significant number were not sufficiently documented.

Inappropriate Expenditures

We identified a number of inappropriate expenditures made with Fund monies. For instance, we found that $354,000 from the Fund was spent on items that directly benefited the faculty and staff, not the College, or that should have been paid directly by the Plan. For example:

- Center officials authorized payments of more than $57,000 from the President's Fund to the Plan's external auditor for about one-half the total cost of services the auditor performed for the Plan. A Center official felt the accounting firm could be more independent if it was paid by the Fund, rather than the Plan. However, such a disbursement is a normal expense of doing business and should be paid with Plan monies, not the Fund.

- More than $65,000 from the Fund was used to cover the cost of catering at luncheons, dinners, meetings and parties. This figure included $8,450 and $8,617 for the December 1991 and December 1992 holiday parties, respectively. A Center manager told us he believes the holiday party expenditures were appropriate because the majority of the participants were related to the College of Medicine.

• On August 13, 1992, a Center vice president signed a contract with the Big Apple Circus to provide a benefit performance for the Health Science Center Beneficial Fund. The President's Fund was used to pay more than $41,000 to produce this fund raising event. As of May 1993, the Center could provide us with no receipts from this event. Center officials have subsequently disclosed that the $41,000 was a loan. On June 30, 1993, the $41,000 was reimbursed to the President's Fund.

We also found inappropriate compensation to individuals from the Fund:

• The Center used the Fund to pay one of its former vice presidents a total of $20,000 for on-site and telephone consultations intended to help his successor deal with major tasks that had been initiated during his tenure. He was paid $200 per hour, a rate of pay that was higher than the rate he earned while an employee at the Center, even when fringe benefits were factored in.

Fund monies were also used to pay for limousine service to transport the former vice president to and from the consultations, some of which were held at dinner meetings. The cost of some of these round trips was higher than $300. We found no documentation supporting these expenditures.

• The Fund was used to pay $65,000 to the new Dean of the College for his relocation from Syracuse to Brooklyn. These monies, which were intended as a partial payment for a cooperative apartment, were a personal expense and not related to training students for the practice of medicine.

Center officials told us they believe that all of these expenses were appropriate because they related to faculty and staff involved with the College of Medicine. We disagree. The use of Fund monies for these types of expenditures does not directly benefit the College, rather it reduces the amount available for spending on the educational mission of the College.

Payments for Other Campus Units

The SUNY Board of Trustees' policy requires that clinical practice monies in the President's Fund are to be used for the benefit of the College of Medicine. Center officials maintain that the University Hospital exists because there is a College of Medicine. Accordingly, Center officials contend that it is consistent with Board of Trustees' policy to use President's Fund clinical practice monies for University Hospital needs. Accordingly, we observed that over a 26-month period the clinical practice monies in the President's Fund paid for about $1 million of University Hospital patient care related items. These items included $160,500 for the recruitment of nurses, $188,000 for renovation work and equipment, and $30,000 for a participation fee for the Greater New York Hospital Association.

We also found that Center officials authorized Fund payments of more than $154,000 for legal and public relations services. These costs were incurred in negotiations between the Center and the New York City Health and Hospitals Corporation concerning an affiliation with the Kings County Hospital, and were intended to codify and define the roles of the Center and Kings County Hospital. In this latter instance, the use of clinical practice monies was not supported with sufficient documentation that the contractor provided services.

The Center's interpretation of policy provides a beneficial outcome. However, Board of Trustees' policy also stipulates that annually only up to $60,000 of clinical practice monies in the President's Fund can be used to support SUNY-wide health science activities. This raises a question of whether it is permissible, for purposes of spending clinical practice monies in the President's Fund, to make no distinction between the College of Medicine and the University Hospital and to expend over $60,000 annually for Hospital needs. This policy arguably suggests that clinical practice monies be primarily focused on the College of Medicine as a distinct unit of operation.

We believe the Center and SUNY Central Administration should seek Board of Trustees' clarification in this matter so that proper assurances exist that use of clinical practice monies is consistent with intended purposes. This clarification would also assure that use of clinical practice monies can be conclusively assessed for conformance with policy.

Recommendations

5. Ensure that the President's Fund is used as intended, to benefit the College of Medicine.

6. Obtain Board of Trustees' policy clarification addressing the use of President's Fund clinical practice monies in excess of $60,000 annually for University Hospital needs.

7. Ensure that expenditures on behalf of the College of Medicine are supported by adequate documentation.

Billing and Revenue

The Governing Board is responsible for the operation of the Plan. Each group at the Center either does its own billing or uses an outside service. We reviewed the cash receipt procedures in 8 of the 18 groups and found that the Governing Board does not oversee the billing and collection operations adequately. Thus, it has no assurance that all Plan revenue is reported. We also found it does not ensure that all groups have adequate procedures for providing internal controls of their billing practices. In addition, some groups understate the amount of clinical practice income they owe to the Fund for the College of Medicine and often do not transfer these funds on a timely basis.

Billing Procedures

The Trustees' policies state that individual Plan members may not bill directly for professional services. However, we found that the Psychiatry group permits its members to bill and collect directly from patients. Plan officials told us they allow the psychiatrists to bill directly in order to keep the names of their clients confidential. The doctors are to report what they collect to the group, but are not required to turn these funds over to the group. The Plan has no assurance that all of the revenue the doctors collect is reported. According to the amount of physician compensation the psychiatrists reported in 1991, they had average gross earnings of less than $1,000 per month from their clinical practices.

Controls over the billing and collection procedures in the Ophthalmology group are not adequate. No control procedures have been instituted to ensure that the group receives all of the revenue earned. We found that the group secretary deposited clinical practice cash income into her personal checking account for eventual transfer to the group. Also, no one ensures that the income collected by the secretary or the group's billing and collection agency is turned over to the group.

The Ophthalmology group uses the Research Foundation of SUNY (Foundation) to hold its funds and write checks. Plan managers told us that the Foundation does not accept cash. Therefore, the secretary deposited cash collected on behalf of the Ophthalmology group into her personal account; then she wrote a check to the Foundation.

The College of Medicine is supposed to receive any net income earned by the Plan. Since controls over cash receipts are weak and some Plan members collect professional fees directly from patients, the risk exists that the College of Medicine is not receiving all the revenue to which it is entitled.

Transfers to the President's Fund

To comply with the Trustees' requirement that 5 percent of the clinical practice income be deposited into a fund for the benefit of the College of Medicine, the Plan bills each group for this percentage at the end of each quarter, based on the revenue figures in the group's monthly reports. We found that the groups do not transfer these monies to the Fund on a timely basis.

Sometime after each quarter ends, the Center's Clinical Practice Affairs Office bills each group for its 5 percent obligation. However, we found significant and varying intervals between the time the quarter ends and the billing date. For example, the first and second quarters of 1992, were billed 50 days after the end of the quarter; the third quarter was billed 68 days after the end of the quarter and; the fourth quarter was billed 102 days after the end of the quarter.

Payment is due 30 days after the billing date, and the Governing Board imposes a 1 percent penalty if a group pays more than 90 days after the billing date. The procedures for collecting the 5 percent obligation allow the groups an excessive amount of time to transfer the funds. Since penalties don't begin until 90 days after the billing date, the groups have no incentive to make timely payments. Two of the eight groups we reviewed waited more than 30 days after the billing date (102 days after the end of the quarter) to pay the $62,000 they owed the Fund for October to December 1992.

We do not believe it is necessary for the Clinical Practice Affairs Office to bill the groups for their quarterly payments to the Fund. The groups can calculate the amount due based on the income that appears on their monthly reports and transfer that amount to the Fund. In addition, the office should, like the IRS, assess a late payment penalty plus interest after the 30-day period, not after 90 days. By delaying the payment of these assessments, the groups are denying the College's educational program the benefits that could have been underwritten by added revenue.

Reported Revenue

We also found that many groups consistently understate income on the monthly income and expense reports that they send to the Governing Board. For example, in 1991, per a CPA audit, the Obstetrics\Gynecology and Psychiatry groups under-reported revenue by $432,000 and $388,000, respectively. Another group's 1991 income included collections that were made in 1989 and 1990, but were not reported to the Governing Board until 1991.

Plan managers told us that the independent auditing firm corrects these errors when it prepares the annual financial statements. However, this does not ensure that accurate information is reported to the Governing Board, since there is often a significant lapse of time between the end of the fiscal year (December 31) and the correction of the under-reported income. For example, as a result of the 1991 annual audit, Plan managers found that the Psychiatry group under-reported income in 1990. Accordingly, a percentage of that income was due to the Fund. But by under-reporting its income, the group did not have to pay the required 5 percent of this additional income to the President's Fund until January 6, 1992, 12 months after the end of the fiscal year.

By understating and delaying payment to the Fund, the groups are not fulfilling their obligation to the College of Medicine.

Net Income

The Trustees' policies require that any Plan income remaining after all Plan obligations have been met must be used for the benefit of the College of Medicine. We found that the net income is not being utilized for the benefit of the College. At the end of the year, the groups retain this money and use it to pay expenses for the subsequent year. As of December 31, 1991, cash balances for 7 of the 18 Plan groups were higher than $100,000.

A Plan manager stated that if the groups transferred their net income at year-end, they would not have enough money to pay their bills. We do not agree. Although the groups need funds for cash flow purposes, they do not need to retain all their net income. For example, the Pathology group's cash balance on December 31, 1991, was $136,000; but it spent only $89,000 of those monies during the first three months of 1992 ($35,000 in January, $23,000 in February and $31,000 in March). It also had revenues during that period. The Radiology group's cash balance was $445,000, which amounted to approximately one-third of its total 1992 expenditures. As of December 31, 1991, the Plan had accumulated a total of $2.1 million from net income for 1991 and prior periods.

Recommendations

8. Ensure that all revenue collected by physicians is turned over to the Plan.

9. Ensure that all groups have adequate billing and collection procedures in place.

10. Ensure the timely transfer of the 5 percent of clinical practice income due to the President's Fund. For example, the Center may require the groups to calculate and transfer the amount due within 30 days after the end of the quarter.

11. Ensure that the Plan groups accurately report all revenue collected and comply with the Trustees' policies regarding revenues.

12. Ensure that clinical practice income remaining at year-end after all Plan obligations have been met is transferred to the Fund for use by College of Medicine. Establish a maximum amount to be retained for cash flow purposes (e.g., the value of one month's expenses).

Major Contributors to This Report

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OFFICE OF THE STATE COMPTROLLER
ROBERT H. ATTMORE
DEPUTY COMPTROLLER

JUL 7 1994

MGMT. AUDIT &
FINANCIAL REPORTING

July 6, 1994

Mr. Robert H. Attmore
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Albany, New York 12236

Dear Bob:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of the State University of New York Health Science Center at Brooklyn and SUNY Central Administration regarding the draft audit report on Clinical Practice Management Plan, State University of New York Health Science Center at Brooklyn (93-S-82).

Sincerely,

Bill Anslow

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

Appendix B

State University of New York Health Science Center at Brooklyn Comments

The Health Science Center at Brooklyn welcomes all of the specific recommendations made by the office of the State Comptroller (OSC) in the present audit review of the Center's Clinical Practice management Plan (CPMP). Health Science Center management is fully committed to implementing these recommendations.

The campus recognizes that the funds should be spent in an efficient, business-like manner. However, the Health Science Center believes that OSC's depiction of certain CPMP expenditures as "inappropriate" or "non-business related" stems in many cases from differences between OSC's interpretation of Article XVI of the Policies of the SUNY Board of Trustees, as referenced in the Agreement between United University Professions and New York State, and that of Health Science Center management.

OSC's stated intent is to ask: "Are the policies promulgated by the SUNY Board of Trustees being complied with?" Health Science Center officials firmly believe, that except for those instances in which such policies may require clarification, or documentation has needed improvement, the Center's CPMP has fully complied with the Policies of the Trustees.

The areas requiring interpretive resolution involve these issues:

1. Paragraph 4(g)3 of Article XVI of the Policies authorize certain expenses to be deducted from income as per IRS guidelines. In order to ensure compliance with such policies in areas regarding certain practice expenditures, such as those for business-related entertainment, travel and automobile use, and to improve operations of the plan, we agree with recommendation 1 of the report which calls for detailed, more definitive guidelines covering the use of clinical practice funds and will be working with SUNY System Administration regarding the development of such guidelines.

2. The Policies stipulate that CPMP monies retained by the campus shall be used for the benefit of the school of medicine. OSC interprets this to mean that such monies must be used directly for the school of medicine. In support, OSC cites several instances of the use of such funds to improve the school's on-campus teaching hospital, recruitment of school faculty and staff, e.g., a dean, consultants providing services to Center management, and the school's efforts to affiliate with a municipal hospital. Center management believes that all such expenditures benefitted the school of medicine, consistent with the Policies of the Trustees. Nevertheless, we agree that this matter requires clarification, and will be working with SUNY System Administration to resolve this issue. See also State University of New York response to recommendation 6.

Apart from these interpretive issues, Health Science Center management has the following comments:

Regarding the Net Income comments on page 15, each of the 18 departmental units that make up our Practice Plan operates a billing and collections unit for its faculty members. Billings and collections fluctuate significantly due to changes in Medicare and Medicaid payment policies and the actions of the fiscal intermediary, turnover of faculty, and volume of billable services. It is therefore imperative that each unit remain in a positive cash position and absorb the fluctuations in both income and expenditures without financial support from other units.

The cited $2.1 million in year end reserves represented approximately 6% of the annual expenditures, or less than that required for an average month. Many of the 18 departmental Plan units spent more than their year end cash balance during January alone. The transfer of the entire cash balance at year's end would result in immediate insolvency for several major departmental professional corporations. We will be developing guidelines, in conjunction with SUNY System Administration, which will define the amounts to be retained for cash flow purposes.

Where the Health Science Center agrees most closely with OSC's findings is with respect to the need for better documentation of CPMP expenditures. Center officials are firmly committed to correcting all documentation deficiencies and to implementing all OSC recommendations calling for clarification of policies and development of better controls.

Recommendations

1. The Health Science Center will be participating in a group comprised of Campus and System Administration representatives to examine and revise as necessary the guidelines covering the use of clinical practice funds to clearly identify allowable and nonallowable expenditures. See also State University of New York response to recommendation 1.

2,3. Agree. We will be reviewing and improving our internal controls regarding expenditure controls, transfer of funds, and adequate documentation.

4. Agree, with the provision that documentation shall be of time or services depending on type of services performed.

5. We agree and will be working with System Administration officials regarding expenditure guidelines for the President's Fund.

6. See State University of New York response to recommendation 6.

7-9. Agree. We will be reviewing and improving our internal controls in these areas, including increased internal audit coverage by the Campus Internal Audit function.

10. We will be establishing procedures regarding the timely transfer of the 5% monies

to the President's Fund.

11. We are reviewing our internal controls in this area in order to improve the accuracy of revenue collection and reporting.

12. We will be developing guidelines, in conjunction with SUNY System Administration, regarding remaining clinical practice income. A portion of these guidelines will deal with defining the amounts to be retained for cash flow purposes.

State University of New York Comments

1. SUNY System Administration will ensure that guidelines and controls are developed at all SUNY locations that have clinical practice plans. The Interim Chancellor has directed the development of a system-wide process for proper oversight, reporting and accountability of all practice plans. The process will include: participation by campus leadership and appropriate system administration, development of system-wide guidelines and appropriate expenditure controls, and a mechanism for ongoing system review and Board of Trustee oversight, in order to ensure proper compliance with Article XVI of the Policies of the Board of Trustees.

6. We are currently reviewing this issue and will clarify the use of chief administrative officer's fund monies.