

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

May 20, 1999

The Committee on Health Services met on the above date at Covell Commons, Los Angeles campus.

Members present: Regents Atkinson, Clark, Davies, Khachigian, Kozberg, Lansing, Leach, and Preuss; Advisory member Vining

In attendance: Regents Bagley, Bustamante, Connerly, Espinoza, Hopkinson, O. Johnson, S. Johnson, Lee, Miura, Montoya, Parsky, and Willmon, Regents-designate Pannor and Taylor, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, Hershman and Hopper, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Laboratory Directors Brown and Tarter, and Recording Secretary Bryan

The meeting convened at 9:10 a.m. with Committee Chair Khachigian presiding.

1. UPDATE ON UCSF STANFORD HEALTH CARE, SAN FRANCISCO CAMPUS

Chancellor Bishop noted that there is a deep financial crisis sweeping the nation's teaching hospitals and undermining their historic mission. The leadership of UCSF and Stanford University anticipated the crisis and sought to protect itself against it by merging the management of their respective hospitals. It was hoped that the merged entity could generate better revenues and operate more efficiently. The merger was initiated only after vigorous scrutiny by the Office of the President and the Board of Regents. He observed that the merger has succeeded in increasing volume and revenues but has failed to improve efficiency. Moreover, most of the financial deficit that is being reported currently is being produced at UCSF rather than at Stanford. He noted that, despite the financial crisis, he and President Casper of Stanford remain strongly committed to the merger as the best hope for saving the respective hospitals. UCSF Stanford Health Care has implemented strenuous measures to control and reduce costs and to augment revenues further.

Dean Debas described the restorative measures that have been implemented. He recalled that the creation of UCSF Stanford Health Care was approved by The Regents while he was Chancellor. He stated his belief that the merger is the best survival strategy for both the UCSF and Stanford academic health centers and that the reasons for creating it are even more compelling that they were in 1997.

Dr. Debas recalled that, following the failure of the Clinton Health Plan of 1994, unregulated market forces revolutionized health care delivery. In the San Francisco Bay Area, health maintenance organizations (HMOs) consolidated rapidly, and large purchasing pools developed. These purchasing pools asked for a 15 percent reduction in the premiums they paid, and the HMOs and insurance companies complied. In 1995, the reimbursement rates for hospitals and physicians in the Bay Area fell by nearly 14 percent, and the bed occupancy rates of hospitals also fell significantly. UCSF Medical Center saw rapid erosion of its profitability. Capitation grew at a rapid rate. At that time, although an impending decline in Medicare and graduate medical education funding was expected, the decline was not expected to be so rapid nor so steep. The projections were that, in a stand-alone mode, UCSF would sustain a deficit of 3.4 percent of the operating budget by 2000. Given this context, a clinical merger between UCSF and Stanford made sense. Together, the two entities would develop a favorable market position and become the provider of choice for complex care. By creating a single hospital administration with a single bottom line, administrative and supply costs would be reduced, and there would be new clinical programs and the ability rapidly to translate scientific innovation to patient care.

Unfortunately, early expectations for the merger were not met. Dr. Debas reported that operating expense increased substantially rather than decreased, primarily because UCSF added 400 new FTEs but also because UCSF Stanford Health Care had to pay \$17 million in retirement benefits for UC employees who were previously covered by the overfunded University of California Retirement Plan. There was an increase in clinical activity, but the severity of the patients' illnesses has increased, and the high cost of their care is not recovered. After a reasonable financial performance in its first year of operation, with a \$22 million profit, UCSF Stanford sustained a loss of \$411 million in the first quarter of its second year and is expected to end 1999 with a deficit of \$60 million. Until UCSF Stanford belatedly realized that it had a first quarter deficit, it had operated as a single economic entity without making any effort to know the profitability of its different hospitals. After the deficit became known, site-specific analyses were made that indicated that most of the deficit occurred as a result of losses at the UCSF campus, and specifically, at UCSF-Mt. Zion. The Stanford hospital was profitable: the increased clinical activity translated into a significant gain at Stanford, where the payor mix is excellent and 58 percent of the patients are private.

Dr. Debas reported that the major cause of the deficit in the clinical operations at UCSF was increased expense in the face of flat revenues. In the first 18 months of the merger, FTEs were added at San Francisco, and significant increases in expenditures for pharmaceuticals as well as operating room and cardiac catheterization laboratories occurred at both sites. Revenues were flat chiefly because of the poor payor mix in San Francisco. Compared to Stanford, UCSF had 11 percent fewer private fee-for-service patients, 4 percent more Medi-Cal, 4 percent more capitation, and 3 percent more Medicare patients. Payments for private patients in San Francisco are significantly lower than payments in Palo Alto. Because UCSF serves more Medicare patients, the impact of the Balanced Budget Act is greater there than at Stanford. It is predicted that

the Balanced Budget Act will produce a total loss by all teaching hospitals by the year 2002 of \$14.7 billion. Dr. Debas emphasized that the situation is a paradox: UCSF has increased clinical activities but decreasing revenues because of poor reimbursement and the high inflation rate in health care.

Dr. Debas reported that the Board of UCSF Stanford Health Care had asked its executive committee to be a "turnaround oversight" committee. This committee meets every two weeks, and in the alternate weeks the chair of the executive committee, Regent Leach, and the chair of the Board, Mr. Isaac Stein, review progress with the CEO of UCSF Stanford. The UCSF Stanford board has strengthened the local administration by appointing a chief medical officer at each site.

Dr. Debas noted that The Hunter Group has been retained to develop recommendations and to work with senior management in implementing them. The group has an immediate strategy to reduce expenses by \$170 million to return UCSF Stanford to a break-even position by 2000. A second \$100 million project will be implemented subsequently that will take UCSF Stanford to a 3 percent to 4 percent profitability. The \$170 million project will reduce FTEs by 900, with 450 positions, mostly in administration, to be eliminated at UCSF. Most of the workforce reduction will be accomplished by June or July. Stanford is laying off a similar number of employees. The cost of supplies will be reduced by \$38 million, and a further \$20 million will be saved by means of other reductions. Although these cuts will degrade services, quality will be monitored closely, and it is hoped that it can be maintained at close to current levels. The \$100 million project, which will be implemented over a period of two or three years, will be more difficult to achieve without relief from the Balanced Budget Act and increased reimbursement for Medi-Cal and contract services. This project may require program closures and consolidations. Studies have been initiated to understand the academic and social implications of such reductions.

Dr. Debas reported that the two major concerns in the midst of these reductions were the maintenance of the quality of patient care and the preservation of the academic programs. UCSF Stanford Health Care has provided to the two schools \$78 million in strategic support, which will be reduced in the future. A Mt. Zion strategy is being developed by the Senior Vice President for Strategic Development, with the help of the Hunter Group. A task force for faculty has been established to assess the academic, service, and quality implications of any decisions taken. Three early UCSF gains from the merger are evident. First, successful joint contracting has enabled UCSF to increase its clinical activity, increase its reimbursement rates in some areas, and prevent a downward slide in others. Second, by 2000, UCSF Stanford will have invested over \$80 million in information systems. Third, UCSF now has equal access to Packard Foundation grants. The Packard Foundation has provided very large grants to support children's services and academic programs at both UCSF and Stanford.

Dr. Debas summarized by saying that the UCSF Stanford merger has proven more complex and challenging than anyone expected. The merger has sustained a major

deficit in its second year of operation, most of the deficit occurring at the UCSF site. This deficit is attributed to critical management failures, to the San Francisco health care marketplace, and to a small degree to the effects of the 1997 Balanced Budget Act. He emphasized that the University had entered into the merger as part of a long-term plan. He urged the Regents to continue supporting it.

Regent Clark spoke in opposition of the continuation of the merger. He recalled that he had been reticent to allow the UCSF Medical Center, which was profitable, to merge with the Stanford Medical Center, which appeared to be running at a substantial loss. He had been skeptical of statements made by former UCSF Chancellor Martin that clinical cost savings and economies of scale would provide increased support for education and research as well as provide better access to care. He cited a recent article from the *New York Times* in which Mr. Peter Van Etten, Chief Executive Officer, stated that it would be impossible to maintain the same quality of service once the expected 2,000 layoffs take place. Regent Clark believed that such statements endanger UCSF with respect to health care litigation, donor and State financial support, and the recruitment of faculty and scientific staff. He noted that the financial crisis was not disclosed to the Regents in a timely manner. He suggested that monthly financial statements be provided to the Regents henceforth. He believed that each Regent has a legal obligation as a fiduciary to protect State funds and that therefore the process to dissolve the merger should be set in motion immediately.

Regent Leach, one of the Regent representatives on the UCSF Stanford board, agreed that UCSF Stanford is facing some very serious problems, both external and internal. The external problems have implications for the University's other hospitals as well as for UCSF Stanford. There is a trend that is disturbing and is borne out by the comments of the Dean and the Chancellor about what is going on at other academic medical centers around the country. He noted that the total operating gain in the third quarter of this year for the four hospitals was \$11 million. For the same period last year it was \$23 million. The operating gain as a percentage of total revenues last year was 5.4 percent. This year it is 2.6 percent. The medical center at UC Davis had a previous operating margin of 3.2 percent which fell in the third quarter to 2.4 percent. The UC Irvine Medical Center, which had an operating gain of \$113,000 on \$146 million in revenues, has suffered a \$2.9 million loss in the third quarter. For every dollar of revenue at Irvine, the medical center is losing 6.5 cents in the third quarter. UCLA Medical Center had a margin of 7.4 percent that fell to 3.6 percent. UC San Diego Medical Center, where The Hunter Group turned a money-losing hospital into a profitable one by bringing in efficiencies, had a 5.8 percent margin in the first two quarters. It has fallen to 5.7 percent in the last quarter. Regent Leach observed that these declines are the result of external conditions. UCSF Stanford Health Care is running at capacity, its revenues are staying flat or declining, and its costs are increasing. The revenue side is much more difficult for the University to affect than the cost side. This year, Medi-Cal will pay UCSF-Stanford \$80 million less than the cost of treating its patients. That is a tremendous burden for any hospital to bear.

Regent Leach noted that the north campus, which is the former UCSF facility, is causing most of the financial problems. It has added costs in the form of additional FTEs, and because of capitation, its payor mix is producing an income that is less than its costs. The internal problems have been driven by the existence of four totally different accounting systems, a fact that was not focused on adequately before the merger. This created delays in getting information to management and to the board. Because of a delay in closing the audit at the year end last year and because of the complexities of the format and four accounting systems, the UCSF Stanford board did not know until the end of January that UCSF Stanford Health Care lost money in the first month of this year. The Hunter Group was already working on a long-term plan because, although it was projecting a profit in this current year, it was projecting a loss in 2000 caused by increased crossover expenses and flat or declining revenues.

Regent Leach recalled that when it was realized that the problems had come to rest sooner than expected, the Hunter Group was asked immediately to construct a plan to correct costs. Staff reductions are one method of doing that. There was a post-merger increase of 968 employees: there were 335 at the north campus, 316 at the south campus, and 317 at the new headquarters. The increase was comprised of 597 in clinical services, 54 in materiel and facilities, and 317 in finance and administration. It is planned to reduce the number by 1,041 in the clinical areas, 322 in the materiel and facilities, and 602 in finance and administration. The target is based upon statistics that are created for academic medical centers around the country. It is the belief of faculty and staff at the hospital that they can produce excellent patient care and be at the same level of efficiency as other academic medical centers.

Regent Leach explained that UCSF Stanford's auditors, Arthur Andersen, did not respond quickly enough when complications caused by the different accounting systems came to light. The auditors delivered a management letter to the UCSF Stanford board in mid-April for the year ending last August. They have been instructed that if future weaknesses are detected, the audit committee of the hospital board should be informed the next day. He observed that dealing with adverse external forces will be more difficult to address.

Regent Preuss asked Chancellor Bishop whether, when the merger was first contemplated, any projections were done that envisioned the financial state of UCSF hospital as a stand-alone facility. Mr. Bishop responded that an outside assessment made prior to the merger projected a \$30 million debt for UCSF Medical Center in fiscal year 2000. Dean Debas believed that conditions in the market had turned out to be worse than expected before the merger took place. He believed that the San Francisco hospital as a stand-alone facility would be in even deeper debt than had been predicted. President Atkinson pointed out, however, that if the merger had not taken place, the cost of hiring additional employees would not be present. Although Dr. Debas noted that one factor in the current financial crisis was increased expenses, he acknowledged that the major cause was management failure.

Regent Lee commented that it was not unusual when merging two large entities to struggle through a crisis such as the one under discussion. He believed that the problem was due mainly to the fact that expenses increased so dramatically. He was encouraged by Regent Leach's statement that expenses would be controlled and that financial information will be available sooner. He suggested curtailing expenses particularly within the UCSF Stanford Health Care's headquarters or moving the headquarters to the UCSF campus and watching its expenses judiciously.

Regent Lansing found it disturbing that the partners were not aware of the losses and that, when they were discovered, each side thought that the losses were most likely the fault of the other. She believed that maintaining the quality of care at the facilities was more important than maintaining their profitability. She was concerned that staffing cuts would have adverse effects on patient care, research, and attracting good doctors. She requested more information on how the Balanced Budget Act affects healthcare decisions. Vice President Gurtner explained that Stanford Medical Center had run at a deficit for many years. It was breaking even as an independent entity just prior to the merger and was no longer using income from its trust and special funds. UCSF Medical Center, on the other hand, historically had been a tightly managed organization with a small margin. As the market began to change, its margins began dropping dramatically, and the projections made clear that it was headed for trouble. In the first year, the merged entity made a profit. When it came to light that the next financial report would be negative, it was assumed that the Stanford hospital was the one losing money. Regent Lansing asked why it took so long for the negative financial information to reach the Regents. Dean Debas reported that it had been decided during the merger to operate UCSF Stanford as one system without trying to find out where profits or losses were created. As to not knowing about the losses earlier, he believed there was a critical failure within the management to get timely information from the auditors. Vice President Gurtner noted that the auditors and The Hunter Group have developed a series of precise changes and requirements to ensure that the situation is not repeated.

Regent Leach reported that the executive committee of the UCSF Stanford Health Care board had a preliminary meeting with the auditors in January during which it was indicated that there were some problems but that they were not of any magnitude. It was not until about April 15 that the management letter was received. Subsequently, Regent Leach met with the managing partner and instructed him to bring future problems of any severity to him immediately. He also instructed him to produce future management letters no later than 60 days after the close of the fiscal year. Regent Leach noted that 602 of the reductions in staff will be in financial and administrative areas which should have little, if any, impact on patient care. A hotline on patient care will be established, and a senior staff person at each facility will be assigned to respond to complaints.

Dean Debas noted that he had been assured by the UCSF Stanford board that the quality of patient care will remain an important concern. He suggested that if it appears

that quality is beginning to suffer, the speed with which the planned changes take place may have to be slowed. Mr. Gurtner pointed out that a portion of the planned staff reductions will be accomplished through attrition and other processes. He emphasized that UCSF Stanford Health Care has a greater staffing level than its comparative institutions, including the University's other medical centers. He believed that staffing numbers do not necessarily equate to quality.

In response to Regent Lansing's question about the Balanced Budget Act, Dr. Debas noted that it has two effects: a reduction in the payment for Medicare and a reduction in the graduate medical education funding. Mr. Gurtner explained that, through the Balanced Budget Act, the Clinton administration aimed substantially to roll back money spent in the Medi-Cal program for medical education. Each year to 2002, less money will be provided by the federal government for academic medical centers. The impact of these cutbacks is felt most deeply by institutions that provide substantial care to Medicare recipients.

Regent Connerly reported that he had voted in favor of the merger largely as an act of faith in deference to the advice of the chancellor and others. He did not think it was a good idea generally for the Regents to revisit issues. In light of the scope of the financial losses expected, however, he believed that it would be prudent to assign a subcommittee to perform an exhaustive analysis of the situation. Chairman Davies pointed out that the executive committee of the UCSF Stanford board is doing this analysis already. He saw no need to duplicate its efforts. He believed that the explanation of why the financial problems emerged was clear: they were caused partly by the complication of having four different accounting systems and partly because of poor work. Timely financial information had not been available to the Regents serving on the UCSF Stanford Health Care board. A plan is under way that will correct that deficiency so that timely financial information is available both to the UCSF Stanford board and to the Regents. Regent Connerly maintained that it may be beneficial to have people further removed from the merger do the analysis. Regent Leach assured him that the Regents on the executive committee would be appropriately impartial. He was confident that the solution proposed by The Hunter Group would turn the situation around. The ultimate challenge is to make UCSF Stanford Health Care as efficient as other academic medical centers while maintaining its high quality. He anticipated that the auditors would provide monthly closings and information to the board within the first 15 days of the subsequent month.

Regent Hopkinson noted that one of the focuses of the presentation dealt with the impact of external forces on the hospital system. She believed that the financial information did not seem to support the conclusion. She wondered why the facility was set up to exclude the Regents from making decisions regarding it. She believed that the Regents should be more intensively involved in the oversight of the merged entity. Dean Debas reiterated that the deficit was caused by increased expenses and flat revenues. The hospital contracts are very poor, and even though clinical activity has increased, revenues have not. Vice President Gurtner explained that the merged entity,

which consists only of the hospitals and not the entire medical centers, is governed by an independent board. It functions under special legislation and was designed not to have to work through either the Stanford University structure or The Regents. The board has three Regental representatives, the Chancellor, the Dean, and a faculty representative, plus three outside members elected by a separate group of independent members and six members from Stanford University. The Regents has the authority to dissolve the relationship. There is a negotiated required set of numbers to be produced and delivered to the Regents monthly that has yet to be produced in a timely fashion. The representatives of The Regents protect the best interests of the University and inform its Board of the various activities. There was never a clear understanding or agreement as to the range or detail of that reporting effort. For the first year, the reports were modest and minimal. At the moment of crisis, the issue of what should be the standard monthly reporting process came to the forefront. Stanford representatives had concerns about the extent of public exposure of the university's day-to-day activities that dictated the structural form of the merged entity. He expected that an annual reporting schedule would be agreed upon following the next UCSF Stanford Health Care members' meeting.

General Counsel Holst elaborated on the structure of the merged entity, confirming that it was created as a free-standing, independent corporation charged with the responsibility for carrying out the operations of the merged clinical programs of the former institutions. There were three basic methods by which the University's input was to be heard in that process: through the representation on the board of directors; through the periodic reporting; and finally through the members' meeting. In terms of implementation of the merger, the responsibility for that was with the UCSF Stanford board of directors, with University input through these means.

Regent Bustamante asked whether the following issues were being addressed by the turnaround committee: the loss of the key managers that took place during protracted merger discussions; the inadequate information technology and Y2K problems; the critical differences in management philosophy; the administrative costs that have gone up because of additional staff; and the widespread disaffection of the clinical faculty on both campuses. While he expressed his faith in the work of the turnaround committee, he supported Regent Connerly's suggestion that some other group examine the issues. Regent Leach acknowledged that he and Regent Khachigian are dealing with a crisis. They are taking some comfort in the experience and effectiveness of The Hunter Group.

Regent S. Johnson opined that it would be counterproductive to revisit the Regents' initial decision. She urged the Regents to keep in mind that the original reason for the merger was to preserve the existence of the UCSF Medical Center. It was anticipated that in the short term there could be problems. She noted that she would vote against any effort to try to undo at such an early stage what has been embarked upon.

In response to a question from Regent Bustamante, Mr. Gurtner explained that the recovery plan will be in effect until the end of 2000. UCSF Stanford Health Care made \$22 million in 1998, will lose \$60 million in 1999, and should break even in 2000. The Hunter Group was brought in when a loss of \$100 million in 2000 was projected. While it was addressing that likelihood, it was asked to focus on new projections that anticipated the \$60 million loss in the current year.

UCSF Stanford Health Care Chief Operating Officer William Kerr noted that the recovery plan calls for a reduction of approximately 2,000 FTE. Of that number, about 900 will be layoffs, about 150 of which will be voluntary. The remainder of the reduction will be effected through attrition and reductions in overtime and temporary help. Regent Bustamante asked whether there is any way to project how these reductions will affect the quality of care. Committee Chair Khachigian noted that 40 percent of the reduction will be in central services and only 9 percent in patient care. UCSF Stanford Health Care is currently overstaffed. It is hoped that the staff reductions can be achieved while quality is maintained by providing more efficient, productive care.

President Atkinson noted that recently he had examined the projected plan as it was put before the Board in 1997. His assessment was that it focused on all the relevant variables. The State Auditor observed at the time that in order to achieve the kinds of gains that were projected in the plan, there would have to be ongoing, aggressive cost reductions and aggressive management. The President believed that management failure was the major reason for the current financial deficit. Informal discussions with The Hunter Group about the possibility of dissolving the merger have occurred. The view is that this is not the time to entertain a formal discussion of dissolution. His judgment was that nothing would be gained.

Faculty Representative Dorr urged the Regents to keep in mind the fundamental role the medical centers have to educate students and conduct research. The University will not be served well if UCSF Stanford Health Care survives financially but undermines this mission. She asked what will happen with whatever contribution the hospital revenues make to academic programs at Stanford and UCSF. She wondered how losses are covered. Dean Debas recalled that the first sentence in the affiliation agreement states that the primary purpose of this affiliation is to support the academic mission of the schools. He reported that he has deployed a number of faculty groups to monitor the impact of these cuts on both undergraduate and graduate education. Mr. Gurtner stated that the losses are covered out of reserves. Neither UC nor Stanford is liable for them. Chancellor Bishop confirmed that, in the face of the financial crisis, UCSF Stanford Health Care has continued to meet its original obligations to fund the two medical centers.

Chairman Davies observed that the \$60 million projected loss, if the changes are all accomplished, does not take into account the use of Stanford's investment income. The

loss will be reduced by about \$30 million in investment income contributions by Stanford.

Regent Kozberg asked how the Office of the President interacts with UCSF Stanford Health Care. Mr. Gurtner reported that he shares with Vice President Broome and General Counsel Holst the information to which he has access by virtue of his representation on the board of UCSF Stanford Health Care. He indicated that he would report within the next few months as to how the Office of the President may become more deeply involved in the ongoing activity of the merged entity. At issue is whether the reasons for the merger remain as legitimate as they were when the initial decision was made. The relationship will continue to be examined into the future. Financial problems at Mt. Zion Hospital in particular have been exacerbated by an increase in expenses.

Regent Clark reiterated that the chief executive officer of UCSF Stanford Health Care had made statements indicating that UCSF Stanford Health Care expects operating losses of \$50 million this year and that without 2,000 layoffs UCSF Stanford would see an operating loss of \$135 million next year, making it impossible to maintain the same quality of care. Chairman Davies restated his point that the reductions that are proposed are going to bring staffing to the level of that of UCLA Medical Center, where the quality of care is outstanding. Regent Clark emphasized that the Regents have a fiduciary responsibility to guard the State's money.

Regent Preuss asked how Stanford personnel feel about dissolving the merger. Regent Leach responded that at the last executive committee meeting, President Casper stated that he did not see any problems that cannot be corrected. Chancellor Bishop stated that President Casper has told him that he believes dissolution would be a huge mistake. It would reposition the two members as adversaries and each would lose its powerful contracting capabilities. UCSF would incur a tremendous debt for the infrastructure investment that was made, and there would be immense transaction costs.

Regent Hopkinson believed that if the merger is to be reconsidered, it should be done very quickly. Attracting and keeping good people will not happen if there is a continued focus on multiple directions.

Regent Montoya reported that initially she believed that a group should be appointed to review the situation at UCSF Stanford Health Care. She was persuaded that the turnaround team in place is sufficient to conduct the review. She wondered, however, when and to what degree the level of information flowing to the Regents will be increased. Chairman Davies recalled that there has been limited information flowing to the Regents because it has not been available to the UCSF Stanford Health Care board. He believed that the problem has been corrected at the board level and that the Regents will begin receiving monthly status reports.

Regent Leach noted that the role and position of the faculties at UC and Stanford are incredibly important. The faculty have been working hard, taking care of more patients, practicing good medicine, and teaching students. In the midst of this, their hospitals have developed a severe financial problem, and although they are deeply concerned, they have been very supportive of the turnaround plan. Regent Lee suggested that, while UCSF Stanford Health Care management is given time to resolve the current problems, the Regents should remain supportive also.

Committee Chair Khachigian assured the Regents that their representatives on the UCSF Stanford Health Care board were working diligently on the current problems and that they would be willing to provide any additional information to any Regent who desired it. She thanked the UCSF and UCOP representatives for their report.

2. **SEMI-ANNUAL REPORT ON THE ACTIVITIES OF THE CLINICAL POLICY REVIEW TEAM**

Dr. Joe Tupin presented a report on the activities of the Clinical Policy Review Team. He recalled that in March 1996 President Atkinson had charged the Office of the General Counsel (OGC), in coordination with the Office of Clinical Services Development (CSD), to establish a pilot Clinical Policy Review (CPR) process for legal analysis and clinical review at the five University academic medical centers in matters of quality improvement, clinical risk management, contracting, and the clinical aspects of human subjects research. The CPR team was formed to conduct the reviews and provide the President and the Board of Regents with periodic reports and recommendations. This activity is referred to as Phase I.

The multi-department team consists of the following members: Joe Tupin, M.D., Medical Director, Emeritus, UC Davis Medical Center; Joanna Beam, Esq., Office of the General Counsel; Cathryn Nation, M.D., Office of Health Affairs; and Roseanne Packard, J.D., R.N., Office of Clinical Services Development.

Subsequent to its original formation, there have been requests from the Regents, President Atkinson, and the campuses that have broadened the scope of the team. These supplemental activities are referred to as Phase II. In addition, there was an acknowledged need for CPR to become a formalized, continuing program with full-time physician leadership.

Progress to Date

Phase I Activities, 1996-99: As of May 1999, the team has completed reviews of four of the five academic medical centers (UC Davis, UC Los Angeles, UC Irvine, and UC San Diego). The UC San Francisco report has been sent to the campus for comment. Thereafter, there will be a meeting with campus leadership and the President. At that point, Phase I will be completed.

Phase II Activities, 1997-99: The team has continued to monitor each campus to evaluate and, as needed, revise and facilitate the implementation of the Phase I recommendations. Also during Phase II, the team has initiated some of the additional complementary activities identified through Phase I findings, requests from the Regents, President Atkinson, and additional assessments of the team. These activities were fully described in the CPR Annual Report to The Regents of September 17, 1998.

Fresno-Central San Joaquin Valley Medical Education Program: CPR first reviewed the Fresno program when Dr. Haile Debas, Dean--School of Medicine, UC San Francisco, requested that CPR provide support and guidance to the program as needed. CPR recommended several changes, including the appointment of a single, responsible executive associate dean reporting directly to the Dean--School of Medicine to oversee the Fresno program and other external programs. Active monitoring and appropriate interventions by the new executive associate dean have begun to reverse past problems. CPR also assisted with budget, faculty organization, contract, and professional liability coverage issues.

New Initiatives

Dialysis Contracts Review: At the June 1998 Regents meeting, the Los Angeles campus presented a proposal to enter into a long-term management services agreement with a private corporation, Total Renal Care, Inc. (TRC), for the management of the UC Los Angeles Medical Center-School of Medicine Dialysis Program. At that meeting, The Regents directed the CPR team to review the UC Los Angeles-TRC agreement, along with all other medical center dialysis contracts, to determine if adequate provisions were in place for maintaining the quality of patient care.

Currently there are two such contracts in place, one at UCLA (Total Renal Care, Inc.) and the other at UC Davis (Dialysis Clinics, Inc.). Each contract was reviewed based on the elements listed below to determine whether there were provisions for assessing and maintaining quality of patient care. Review criteria were developed based on the experiences of CPR and OGC staff and the Joint Commission on Accreditation of Healthcare Organization (JACHO) requirements for maintaining quality patient care in contracted service relationships. The elements of review were:

- Term of the contract;
- Location of services in terms of proximity to the University;
- Quality improvement program requirements;
- Risk management program elements;
- University faculty and staff involvement in patient care and quality improvement programs;
- University medical director identity and role;
- University rights and procedures for determining patient care; and
- Access to patient records.

Prior to the execution of the UCLA-Total Renal Care contract, the CPR team had the opportunity to discuss quality improvement and risk management provisions with UCLA administration and Total Renal Care, Inc. senior staff. The final contract contains many patient-centered and quality-related contractual elements, including the provision that failure to conform to the quality management program results in termination of the contract.

The UC Davis-Dialysis Clinics, Inc. contract was originally executed in 1991 and has been renewed annually. Although generally satisfactory, it will be revised to bring it into fuller compliance with the evaluation criteria and current practice.

The CPR team conducted site visits, interviewed University faculty and administration for each program, as well as senior staff of TRC. For both programs, the practice met or exceeded the contractual requirements with the medical directors, who are UC faculty, directing all patient care and participating at the corporate level in quality of care policy and practice activities. The two corporate partners, TRC and DCI, supported research and provided national data and consultation to the local programs

as quality improvement programs. Both programs report patient care data to medical center quality improvement committees.

The California Nurses Association raised concerns based on UCLA employee input that TRC would bring in less experienced nurses and patient care would suffer. The team found that personnel were professional, and voluntary transitions to corporate employment seemed orderly. University employees at UCLA who do not wish to transfer to the new program are being reassigned as new corporate employees are hired.

General principles for the evaluation of patient care in contracted services have been developed and will be refined further through consultation and review of national practices and standards.

Formalization of CPR: At the September 1998 Regents meeting, the CPR team recommended, with support from President Atkinson and Vice President Gurtner, that CPR be converted from a pilot program to a permanent, on-going component of Clinical Services. That proposal was supported by the Committee on Health Services, and a subsequent detailed proposal was approved by President Atkinson. Recruitment for the Director--Medical Services should begin this summer, followed by a phased-in identification of additional staff. Dr. Tupin reported that he will continue to work with the CPR team through the transition phase.

Human Subjects Clinical Research Review: At the request of President Atkinson, CPR is expanding its focus to include human subjects clinical research review. In the past, the team focused primarily on research administration and the Institutional Review Board's (IRB) compliance with University, State, and federal policies. The team will now expand its review to include matters such as financial management, implementation of IRB-approved protocols, administrative efficiency, and similar functions. CPR is currently reviewing health science campus human subjects research practices and compliance with state and federal regulations in order to develop a fuller description of the process and to formulate a plan for this review.

Trends and General Comments

Dr. Tupin reported that as resources diminish in an increasingly tight financial environment, the campuses appear eager to collaborate in clinical improvement areas. The sharing of resources, best practices, policies and procedures, and hard-won knowledge benefit all campuses and the system as a whole. This desire for collaboration should be supported at all levels, including increased participation of UCOP in the clinical life of the medical centers.

During the three years of working together as a multi-departmental team in close collaboration with leadership at the five health sciences campuses, the team has demonstrated the added value of systemwide, integrated review and support for the campuses. The team has encouraged higher clinical standards for the campuses, offered support, and fostered new and effective intra-system collaborations. Dr. Tupin reported

that the team looks forward to continuing the process on a permanent basis under the direction of the new Director--Medical Services.

Dr. Tupin stated that he had taken note of earlier comments about the danger of the quality of care being affected by cutbacks in UCSF Stanford Health Care. He reported that he would consult with General Counsel Holst in an effort to find an appropriate way for the President's Council to participate in an ongoing review of the quality of care within the merged entity.

3. **UPDATE ON CORPORATE COMPLIANCE PROGRAM**

Ms. Maria Faer, Director of Clinical Policy and Legislation, presented an update on the corporate compliance program. She noted that the business of health care is under unprecedented scrutiny, with increased demands for accountability at all levels of the clinical enterprise. Since the early 1990s, the regulatory climate surrounding the practice of medicine has become increasingly complex, often making it difficult for employees to determine the intent and requirements of ever-changing State and federal mandates. At the same time, the federal government has embarked upon a major initiative to reduce health care costs through a number of actions, including the Balanced Budget Act of 1997 and nationwide audits of health care business practices, to determine if there have been unintentional errors and fraudulent practices. In some cases, these audits have resulted in significant financial settlements for the clinical enterprise and negative publicity for the affected institutions. In response, the governing boards of medical centers throughout the nation have taken aggressive steps to implement corporate compliance programs that demonstrate the commitment of leadership and employees to conducting the institutions' business activities in an ethical and legal manner.

In June 1998, The Regents authorized the President, in consultation with the General Counsel and the Vice President of Clinical Services Development, to develop a Health Sciences Clinical Enterprise Corporate Compliance Program and report periodically on its status. In September 1998, The Regents, at the request of the President and the Universitywide Corporate Compliance Committee, approved a resolution supporting the principles that would provide the framework for the development of the Program's Code of Conduct. As of May 1, 1999, the Universitywide Committee, in close consultation with the General Counsel, University Auditor, and the Offices of Clinical Services Development and Business and Finance, has completed a proposed "Health Sciences Clinical Enterprise Corporate Compliance Program and Code of Conduct." This document has provided the guidelines for the development of campus-specific Corporate Compliance Plans. To finalize the systemwide program and implement the campus plans, the Committee has proposed the following time line:

- May 1 to July 1, 1999: review of proposed program guidelines;
- July 1999 meeting of the Board of Regents: action item approving the program;
- Guidelines and update on the status of campus plans;

- Mid to Late Summer 1999: Distribution of program to all University employees in coordination with Universitywide Corporate Compliance Education workshops.

4. **ACTIVITY AND FINANCIAL STATUS REPORT ON HOSPITALS AND CLINICS**

Vice President Gurtner reported that, although patient activity has grown across the system, revenue gains have been modest, and margins continue to be small. The marketplace is forcing a general downtrend. He emphasized that the University's medical centers continue to be dependent on the approximately \$40 million in additional support provided by the State.

The meeting adjourned at 12:10 p.m.

Attest:

Secretary