REVIEW OF UNM MEDICAL GROUP, INC. OPERATIONS

THE UNIVERSITY OF NEW MEXICO

Report 2013-11
June 6, 2013

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CONTENTS

EXECUTIVE SUMMARY **1**

CONCLUSION 5

INTRODUCTION **6**

BACKGROUND 6

PURPOSE 8

SCOPE AND OBJECTIVES 8

PROCEDURES 8

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES **9**

CORPORATE DOCUMENTS 9

Articles of Incorporation and Bylaws 9

Bylaws 9

Form 990 Filing Requirement 9

University Research Park Act 11

MEMORANDUMS OF AGREEMENT 12

Affiliation and Management Services Agreement 12

Purchased Services Agreement 13

MOA between UNM HSC and UNM Medical Group, Inc. 14

MOA between UNM Hospital and UNM Medical Group, Inc. 14

HSC Mission Support Payments for the Sandoval Regional Medical Center Project 14

Ancillary Memorandums of Agreement 14

FINANCIAL ANALYSIS 15

Net Purchased Services Distribution 15

Scorecard Analysis 16

UNM Medical Group Clinics 19

UNM Cancer Center 20

SRMC Start-Up and Mission Support 21

UNMMG Payroll, Salaries and Benefits 22

Payroll Allocation Through Special Arrangement and MOAs 23
UNMMG/UNM Employees 24
UNMMG Purchasing Function 24
MEDICAL CODING, BILLING AND COLLECTIONS 25
Medical Coding and Billing Processes 25
Business Operations Quality Control 29
UNMMG Compliance Office 30
Repayment of Medicare and Medicaid Billing 31
INVESTMENTS AND BOARD DESIGNATED ASSETS 31
Reserves Analysis 32
UNMMG Investments Portfolio 33
UNCOMPENSATED CARE IN NEW MEXICO 33
Uncompensated Care – UNM Medical Group 33
Uncompensated Care – UNM Health Sciences Center System 35
APPROVALS 36

ABBREVIATIONS

BCMC	Bernalillo County Medical Center
Board	UNMMG Board of Directors
Business Operations	UNMMG Business Operations Department
Bylaws	Restated and Amended Bylaws
CDD	UNM Center for Development and Disability
CEO	Chief Executive Officer
CF	Conversion Factor
CFO	Chief Financial Officer
CMS	Center for Medicare and Medicaid Services
CPE	Clinical Process Excellence
CPT	Current Procedural Terminology
ERB	Educational Retirement Board
FOM	Faculty of Medicine
Form 990	Form 990, Return of Organization Exempt From Income Tax
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GCPI	Geographical Adjustment
HSC	Health Sciences Center
Internal Audit	University of New Mexico Internal Audit Department
IT	Information Technology
MOA	Memorandum of Agreement
MPV	Medical Present Value
OGCR	Office of Government and Community Relations
OIG	Office of the Inspector General
RFP	Request for Proposal
SCI	New Mexico State Coverage Initiative Payments (SCI)
Scorecard	Cash Basis Financial Analysis provided to the UNMMG Board
SOM	School of Medicine
SRMC	Sandoval Regional Medical Center
University	The University of New Mexico
UNM	The University of New Mexico
UNMH	University of New Mexico Hospital
UNMMG	The University of New Mexico Medical Group, Inc.
UPA	University Physician's Associates
UPL	Upper Payment Limit
VA	Veteran's Administration
WRVU	Work Relative Value Units

EXECUTIVE SUMMARY

In, 2007, the University of New Mexico Medical Group, Inc. (UNMMG) was created under the University Research Park and Economic Development Act, and is organized as a Section 501(c)(3) not-for-profit corporation. UNMMG employs 300 support professionals who perform professional billing and collections, operate outpatient clinics, and provide a variety of management and financial services in connection with operating the UNMMG.

CORPORATE DOCUMENTS / MOAs

UNMMG has Memorandums of Agreement with the UNM Health Science Center, UNM Hospital, and Sandoval Regional Medical Center, as well as other UNM organizations.

The Affiliation and Management Services Agreement and the Purchased Services Agreement are the main MOAs.

The UNMMG is classified by the Internal Revenue Service (IRS) as a Type I public charity supporting organization. Under prior tax rules, Type I supporting organizations were not required to file Form 990, Tax Return for Exempt Organizations. However, the IRS recently changed its rules, and now requires these types of organizations to file Form 990. The UNMMG is in the process of applying for an IRS determination to be reclassified as an affiliate of a government organization, which would not be required to file a Form 990.

The UNMMG has several Memorandums of Agreement (MOA) with The University of New Mexico (UNM) Health Sciences Center (HSC) for the management services it performs. The UNMMG is the exclusive provider of billing services to UNM for all medical services performed by UNM physicians. In addition, the UNMMG takes the lead in negotiating and consummating all agreements with third party payers for the services of UNM physicians and all UNM HSC clinical entities. UNMMG performs accounting and financial duties related to UNM physician clinical activity, including:

- Business planning, capital budgeting, and operating and cash flow budgeting;
- UNM School of Medicine (SOM) budgeting for clinical services provided by UNM physicians;
- Providing annual and interim financial statements in connection with UNM physicians;
- Accounting operations, including accounts payable, accounts receivable, and payroll; and
- Quality reporting, including meaningful use.

UNMMG has cost reimbursement agreements with UNM HSC and UNM Hospital.

Summary Scorecard (in millions)

	FY 2012
Total Revenues	$ 125.2
MG Operations	(19.0)
Subtotal	$ 106.2
Other Reductions	(2.6)
Dean's/Rescission Tax and Malpractice Insurance	(11.9)
Departmental Reserves	1.3
Medical Group Clinical Operations	(0.4)
Quality Reserve Returned to SOM	0.0
SOM Department Incurred Expense	(2.0)
Net Purchased Services	$ 90.6

Source: UNMMG Exhibit - 4

The UNMMG has a Memorandum of Agreement with the University of New Mexico Hospital to provide services to each other and be reimbursed for the incremental cost. The UNMMG has a similar MOA with UNM HSC and Sandoval Regional Medical Center (SRMC) to provide services for each other and be reimbursed for any incremental cost.

UNM has agreed to provide funds to assist in capitalizing SRMC, and has an MOA with the UNMMG to establish support payments to UNMMG for physicians providing services at SRMC.

UNMMG has several ancillary Memorandums of Agreement with other UNM organizations, including Athletics, Office of Capital Projects, UNM HSC Marketing, University Counsel, and UNM HSC for the Truman St. 340b Drug Pricing Agreement.

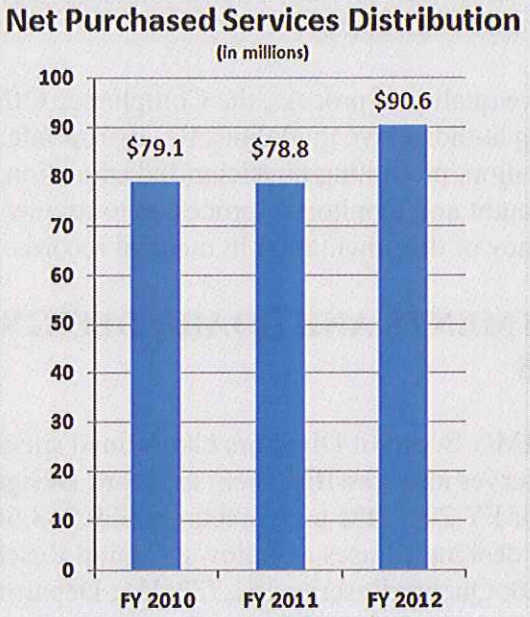
FINANCIAL ANALYSIS

UNMMG calculates the Net Purchased Services Distribution each month and prepares a Scorecard analysis for each UNM SOM clinical department. A comprehensive presentation of the Scorecard is made to the UNMMG Board of Directors and the Finance Committee. The Net Purchased Services Distribution is transferred to the UNM SOM clinical departments each month to fund their clinical operations and overhead expenses as well as to support the education and research missions.

The Net Purchased Services Distribution is calculated from the total clinical revenue collections, reduced by UNMMG management fee, the SOM Dean's Tax and Rescission Tax, malpractice insurance, withholdings for investment, quality and department reserves, and the profit or loss from UNMMG clinics.

Total clinical revenue collections for FY 2012 were $123,904,851, and miscellaneous revenue was $1,258,712, for total revenue collected of $125,163,563. The management fee includes the cost of UNMMG Business Operations

The Net Purchased Services Distribution is transferred on a monthly basis to the UNM SOM Clinical Departments.



Note: The Purchased Services Distribution is net of Department Reserves withheld of $3 Million in FY 2010 and $14.6 Million in FY 2011. A net of $1.3 Million in Department Reserves were returned to SOM in FY 2012. Source: UNMMG

The Business Operations Department performs the medical coding and billing for the UNM SOM clinical practices.

(Coding and Billing, Accounts Receivable, and Claims Denial), Finance and Accounting, UMMMG Compliance, Human Resources, Information Technology, Clinical Contacting, Quality and Clinical Process Improvement, Business Development and Outreach, and UNMMG Ambulatory Clinic Operations.

The total UNMMG management fee for FY 2012 was $19,035,649, and the malpractice insurance premium was $3,820,461; the aggregate net loss of the UNMMG clinics for FY 2012 was $389,209. For FY 2012, the Dean's Tax (5% of clinical revenue collections) was $6,180,193, and the Rescission Tax (1.5% of clinical revenue) was $1,854,057 (Exhibit 2).

For FY 2012, the UNMMG withheld Quality Reserves of $600,000, Investment Reserves of $2,000,000, and Department Reserves of $337,114. In addition, the UNMMG returned $1,669,793 of Department Reserves back to clinical departments at the UNM SOM and UNM Cancer Center.

For FY 2012, the UNMMG returned $90,586,026 back to the UNM SOM.

MEDICAL CODING, BILLING, AND COLLECTIONS

UNMMG Business Operations Department (Business Operations) is responsible for managing the revenue cycle. This includes the managerial oversight of charge entry, coding and claim submission to third party payers, collections, denials, accounts receivable and bad debt management.

Business Operations has several quality control initiatives in place for monitoring and improving the coding and billing process, including training and certification, coordination with the UNMMG Compliance Office, and external performance review of coding and billing auditors and processes.

Medical claim denial rate has decreased from 6.11% in FY 2008 to 2.17% in FY 2012

UNMMG Board Designated Assets (in millions)

	FY 2012
Capital Reserve	$ 1.7
Quality Reserve	1.7
Department Reserve	16.3
Recession Reserve	0.0
Investment Reserve	9.3
Total Reserve Balance	$ 29.0

Source: Audited Financial Statements

UNMMG Uncompensated Care (in millions)

	FY 2012
Charity Care	$ 58.6
Bad Debt Expense	28.5
Uncompensated Care Total	87.1
Cost to Charge Ratio	45.5%
Uncompensated Care at Cost	$ 39.6

Source: UNMMG

The UNM Medical Group Compliance Office performed a retrospective review of Medicare claims for services performed by the UNM SOM surgery departments resulting in repayments of $818,000 to Medicare, Medicaid, and Triwest. The retrospective review covered the period from April 1, 2007 to December 31, 2011. Over the course of this period, total collections from Medicare, Medicaid, and Triwest were $102,183,702.

To improve quality of process, the Compliance Office is developing authoritative guidelines for appropriate provider documentation, promoting physician-led education, and initiating audit and monitoring processes to review the quality and accuracy of documentation in medical records.

INVESTMENTS AND BOARD DESIGNATED ASSETS

The UNMMG Board of Directors has defined specific uses for the reserves and classifies them as Board Designated Assets. For FY 2012, the total assets are $29,068,640, with the Board designated uses as follows: Capital Reserve - $1,747,610; Quality Reserve - $1,733,411; Department Reserve - $16,301,943; and Investment Reserve - $9,285,676. In accordance with the UNMMG Investment Policy, the reserves are invested through a custodial brokerage arrangement and are held primarily in money market funds, corporate debt securities, sovereign securities, and securities of the U.S. government and its agencies.

UNCOMPENSATED CARE

Uncompensated care is an overall measure of hospital care provided for which no payment was received from the patient or insurer. It is the sum of the Medical Group's "bad debt" and the charity care it provides. UNMMG provided $58.6 million in charity care for FY 12, $57.2 million in FY 2011, and $51.5 million in FY 2010. Uninsured accounts are fully reserved, and bad debts expense for these accounts were approximately $28 million in FYs 2011 and 2012, compared to $23 million in 2010. UNMMG uncompensated care cost