

School of Dentistry

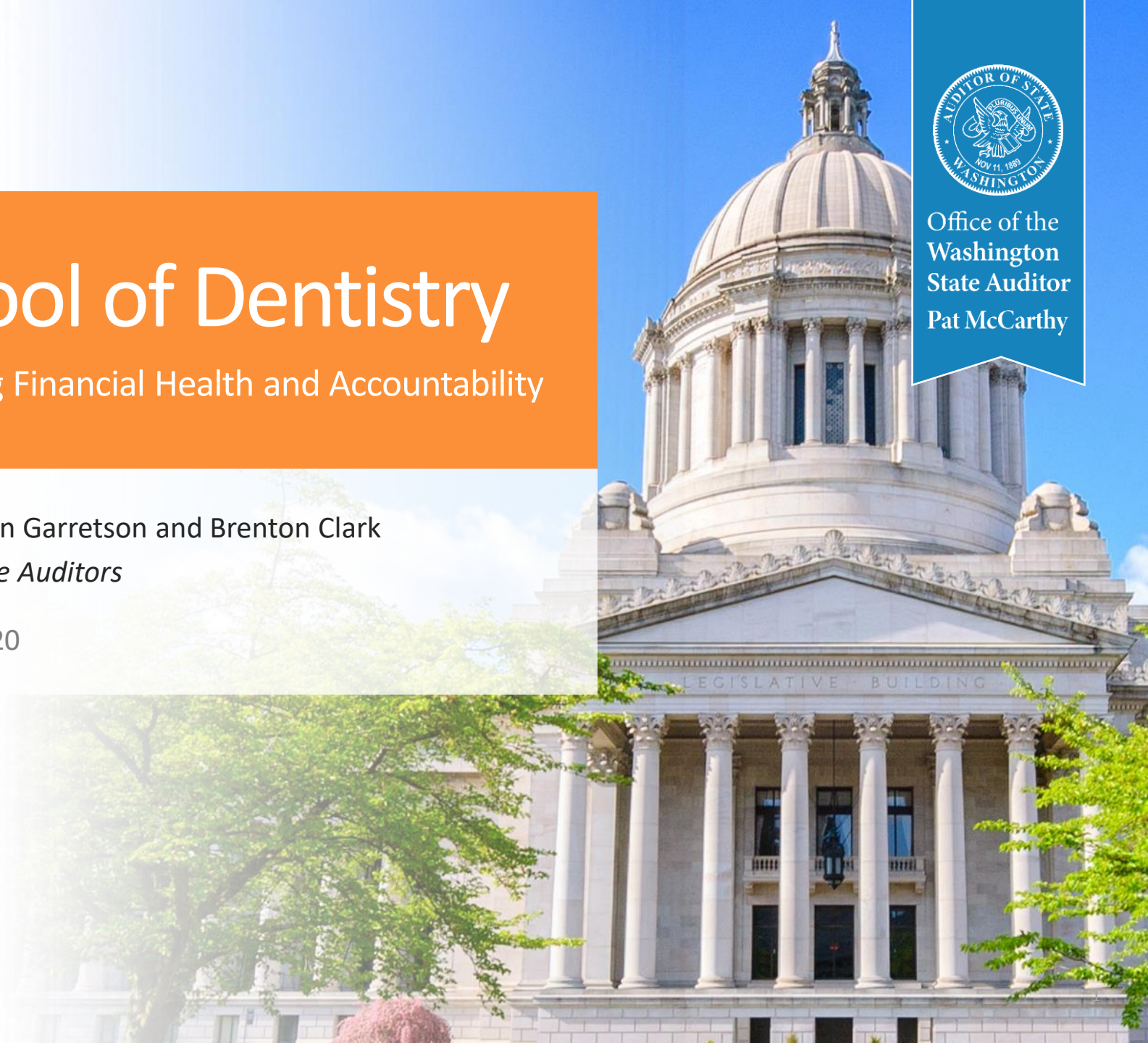
Improving Financial Health and Accountability

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Performance Auditors

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Office of the
Washington
State Auditor
Pat McCarthy



Key audit findings

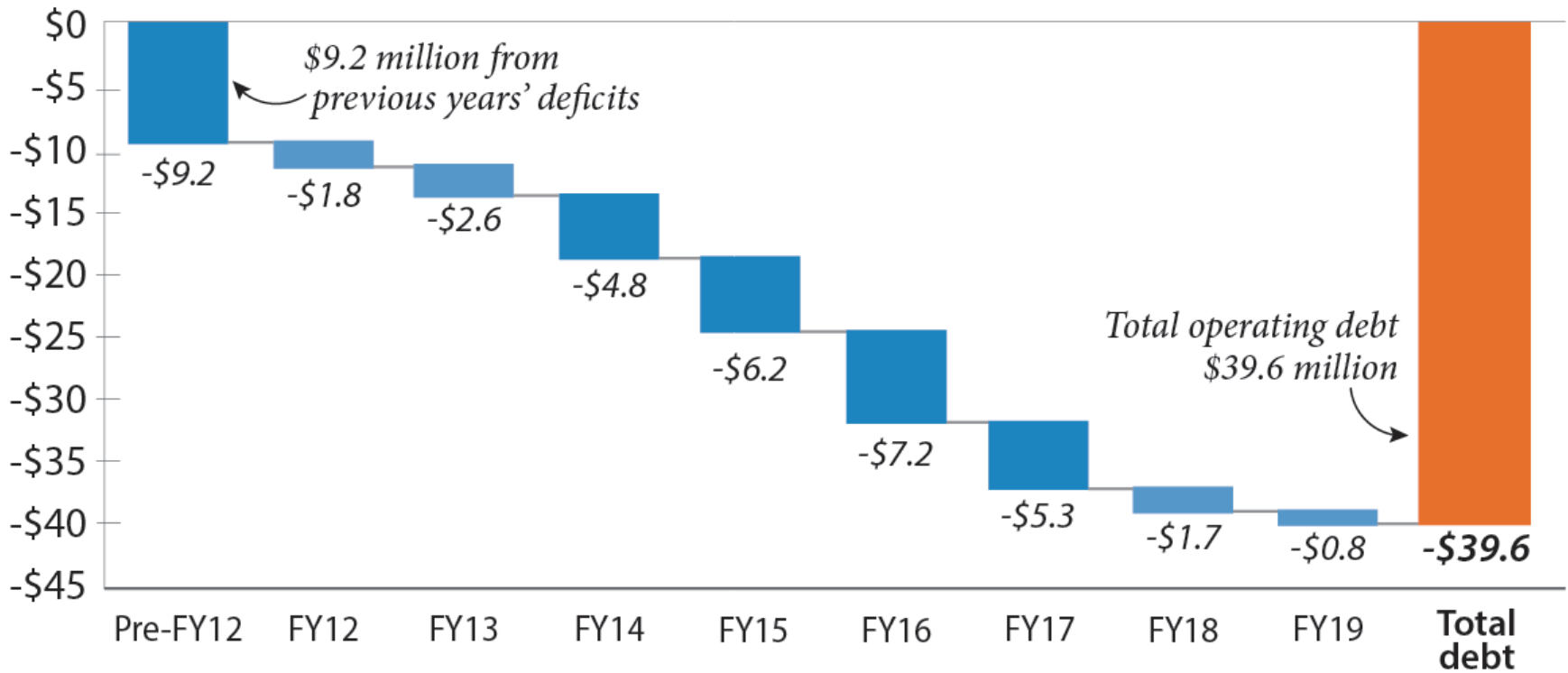
- The School of Dentistry accumulated \$40 million debt
- The school could expand its use of performance data
- The university has improved oversight of schools' finances, but could take further steps
- The school needs a strategy to reconcile financial, educational and service objectives



The school's financial situation prompted this performance audit



Fiscal year deficits, dollars in millions



Source: School of Dentistry financial reports.

The audit asked...

- 1) What were the key financial causes for the School of Dentistry's accumulated operating debt?
- 2) How can the School of Dentistry better use financial and productivity data to inform decision-making and improve financial sustainability?
- 3) How can the University of Washington improve its governance model to prevent and respond to similar financial management problems in other schools and departments?



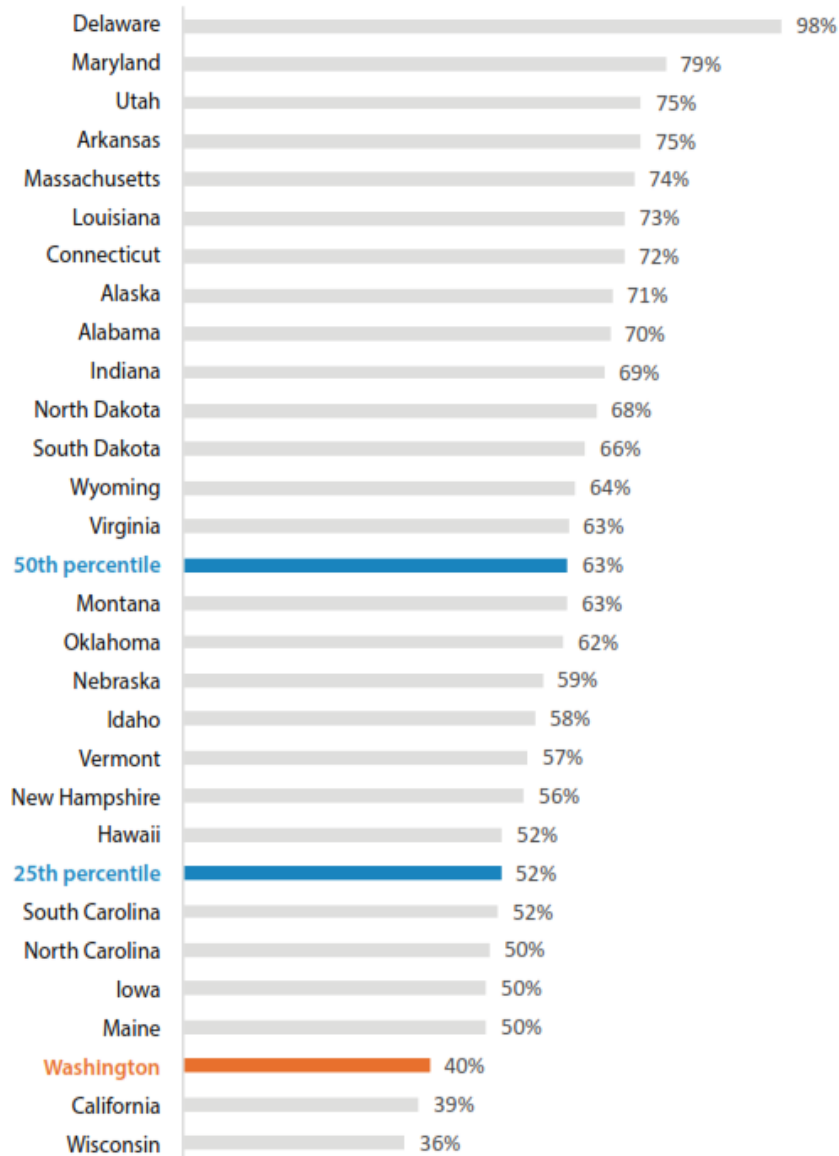
Causes for the school's deficits

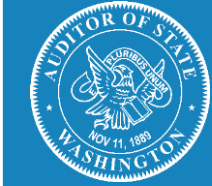
1. Medicaid reimbursement for dental services among the lowest in the nation
2. Center for Pediatric Dentistry brought in only one-quarter of projected revenue
3. Most clinics cannot cover direct and allocated costs
4. Correctable billing issues



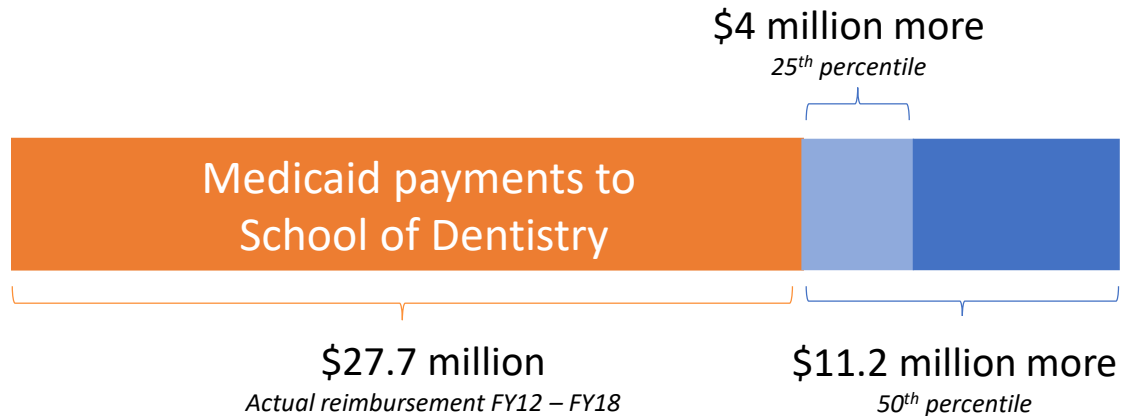


Cause #1 - Medicaid reimbursement among the lowest in the nation





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The school could have received over \$11 million more if Washington’s Medicaid program reimbursed on par with the 50th percentile of states nationwide.



Cause #1 - Medicaid reimbursement among the lowest in the nation

Medicaid and the school depend on each other

- The school needs patients willing to accept treatment times longer than at private dentists
- Patients struggle to find dentists willing to accept Medicaid

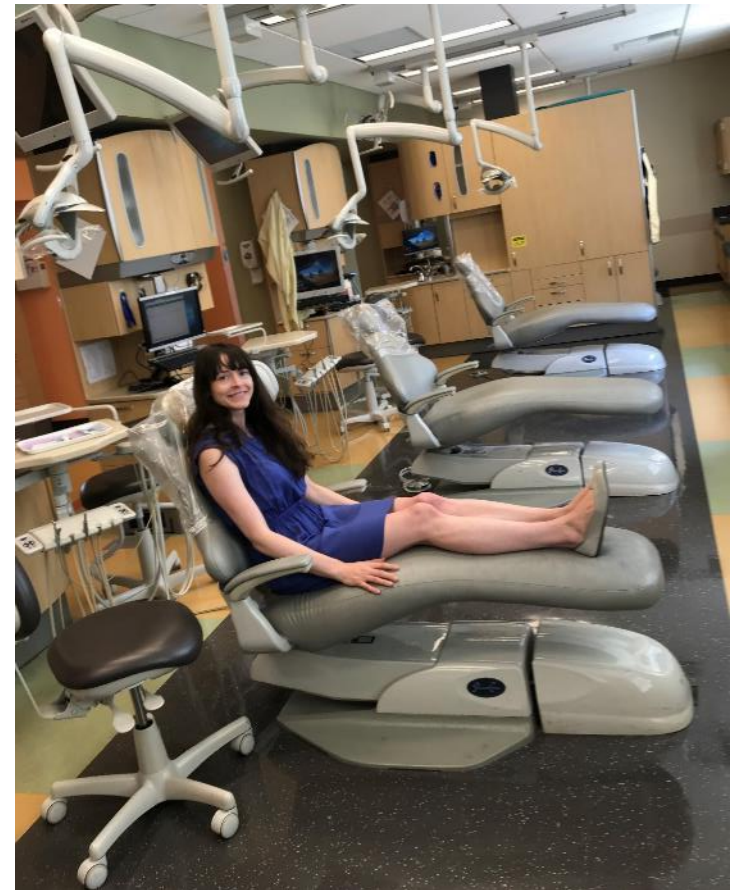




Cause 2 - The Center for Pediatric Dentistry brought in only one-quarter of its projected revenue

- Loan to establish the Center likely will cost the school \$21 million in total, including interest
- Unrealistic projected revenue assumptions
- Difficulty covering operating costs

Even if closed, the school will pay \$700,000 annually on the loan until FY 2042





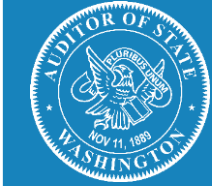
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Options to maximize use of the Magnuson Park Clinic include:

- Additional clinic hours
- Services that could attract patients with higher-paying insurance

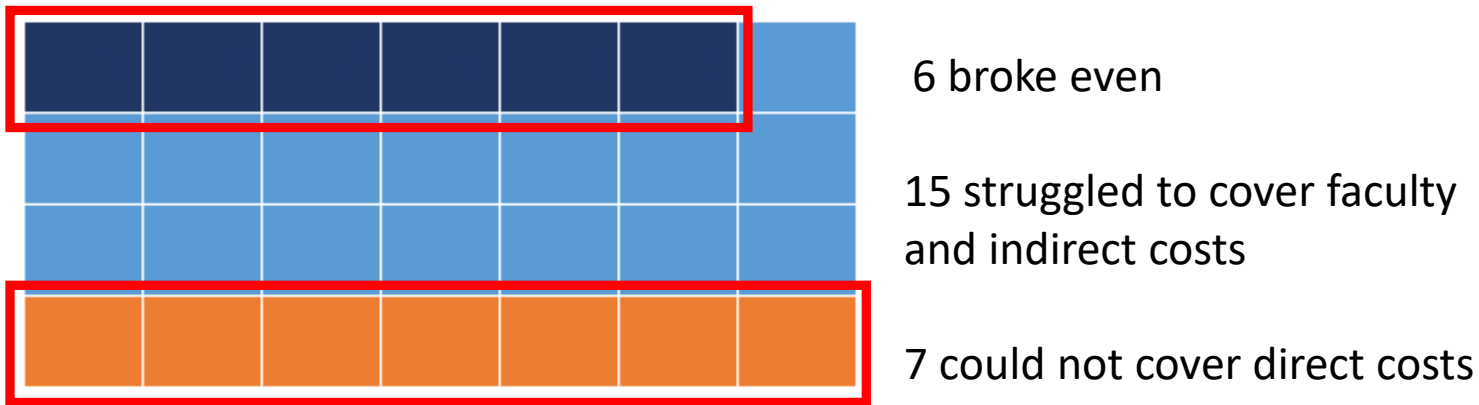
The school must analyze these plans for cost-effectiveness





Cause 3 - Most of the other clinics also operate at a deficit

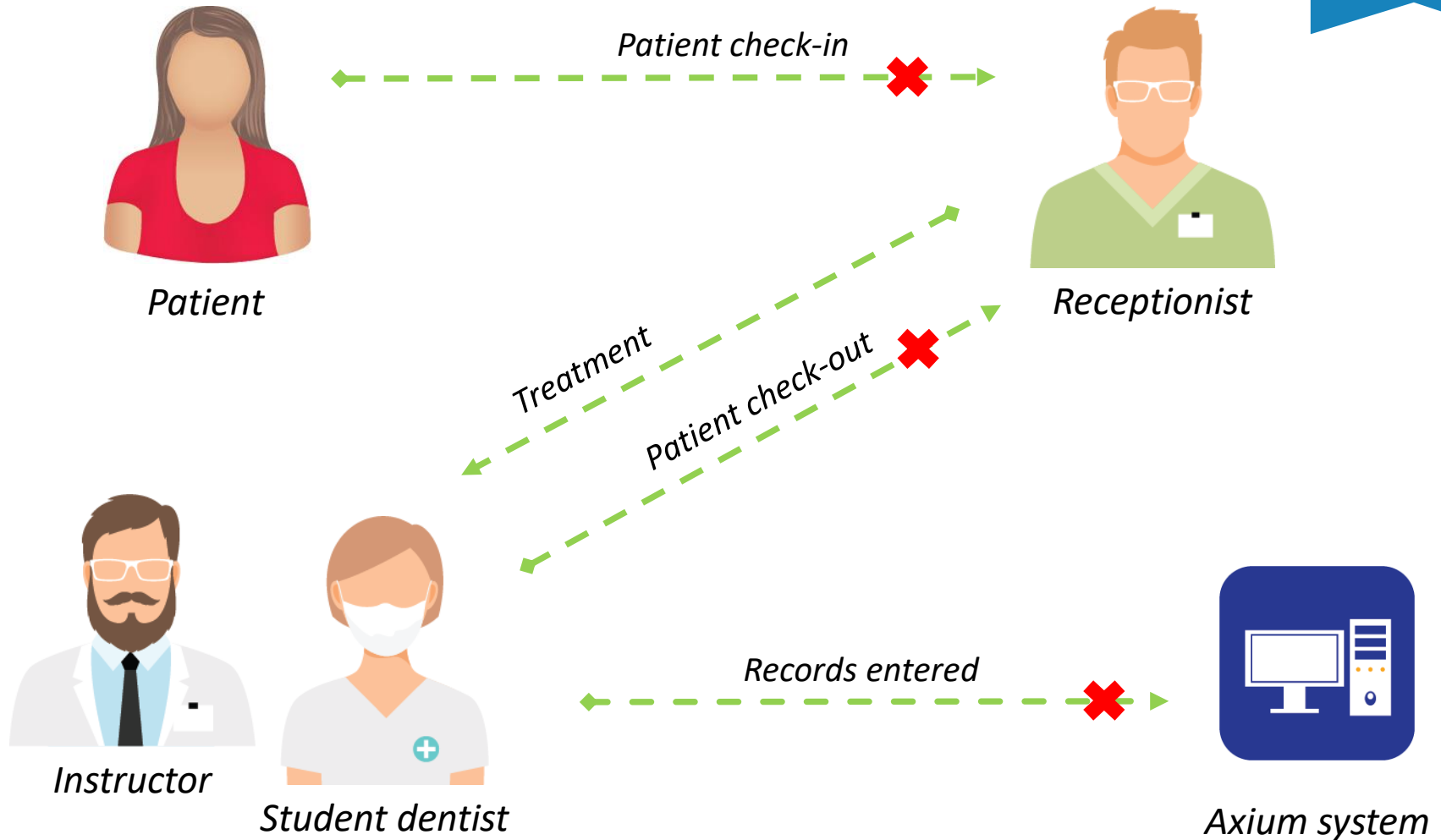
Out of 28 clinics, programs and practices:



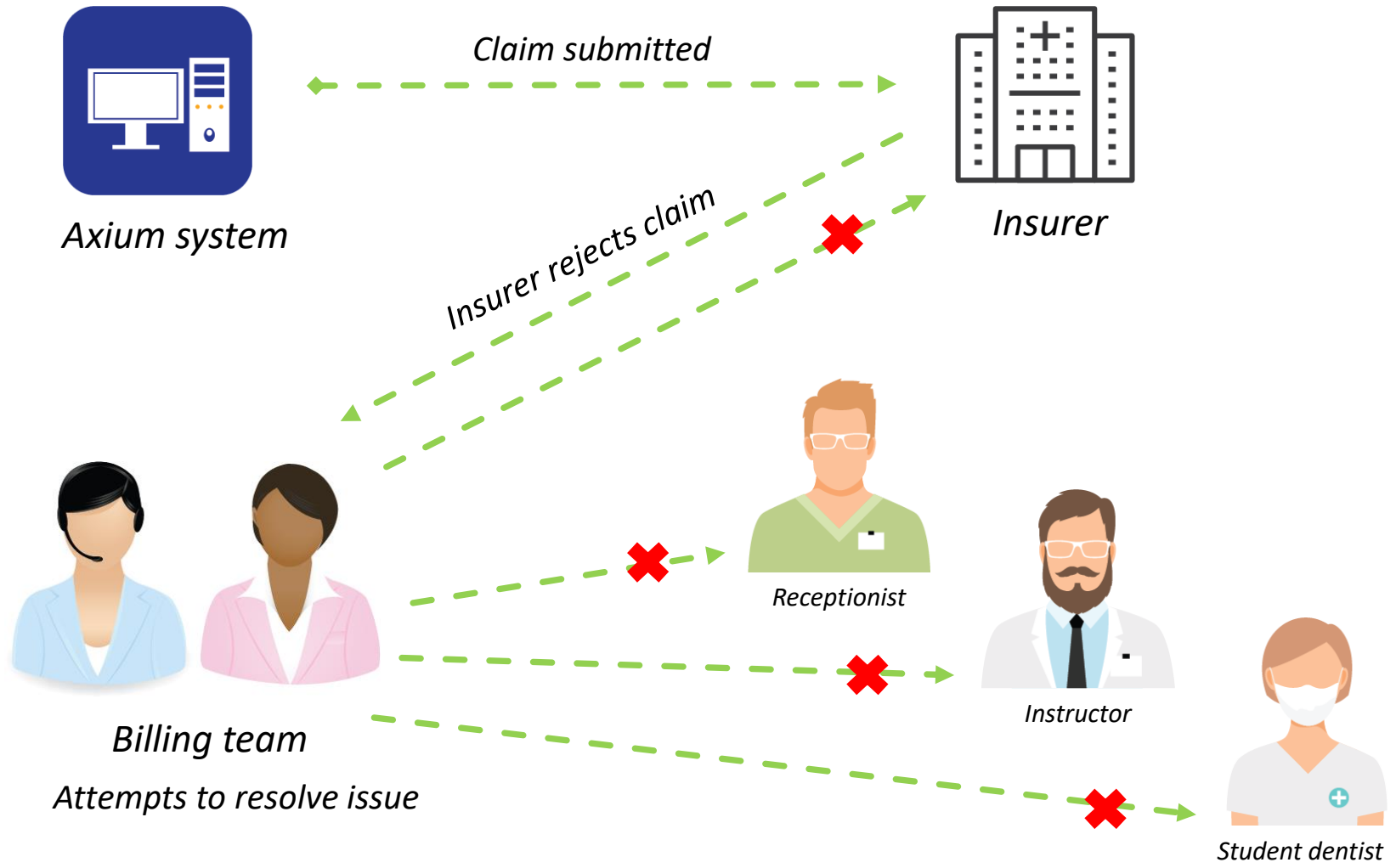
- In FY 2018 indirect costs were one-fourth of all clinic expenditures
- Faculty costs allocated to clinics has steadily increased



Cause 4 - The School of Dentistry's billing process has multiple weaknesses



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Additional revenue sources are limited

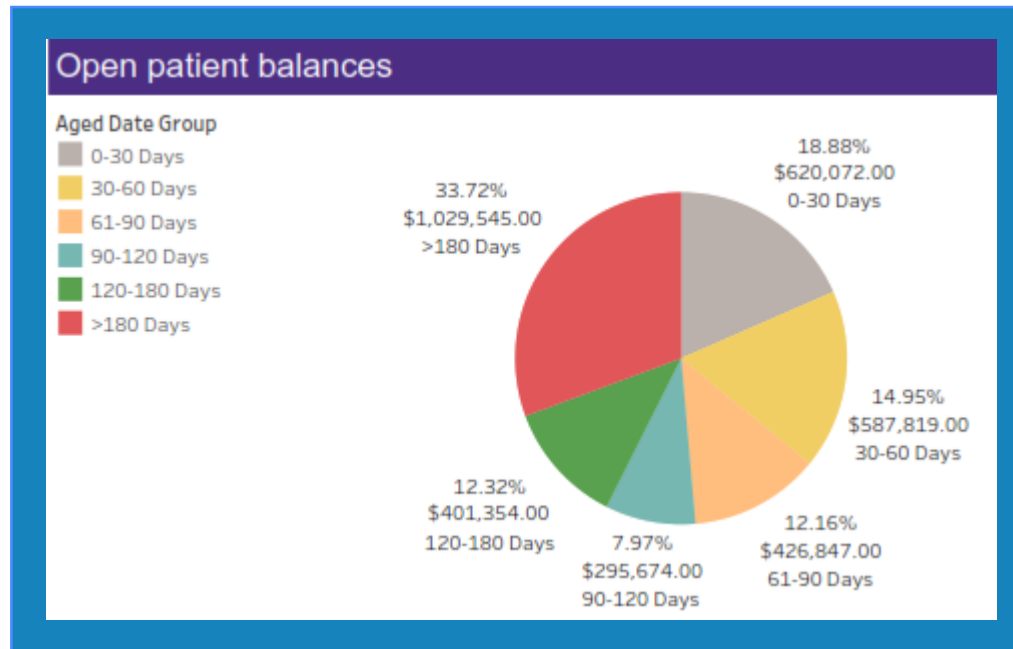
The school has already:

- Raised tuition as high as it feasibly can
 - In-state tuition: third highest nationally
 - Out-of-state tuition: second highest nationally
- Increased enrollment in the international dentist program
- Sought financial support from the Legislature and Seattle Children's Hospital





New performance measures in place can help the school manage its clinics, but some gaps remain



Measures or data still needed:

- Clinical costs, staff productivity, collected revenue
- Detailed data on why payment was denied
- Scheduling details for faculty and students



Inconsistent use of clinic financial and productivity data contributed to the school's financial challenges

- Expectations by the Dean's Office not reflected in budgets used by clinic administrators
- More than 20 available reports used by only one administrator
- Inconsistent training resulted in administrators not knowing about existing resources





The University of Washington improved oversight

- Internal Audit strengthened its follow-up process when deans and others do not implement agreed-upon correction plans
- The Board of Regents and UW Treasury strengthened their response when borrowers cannot repay internal loans
- The Office of Planning and Budgeting (OPB) improved its deficit monitoring protocol
- UW Finance expanded its monitoring of financial activities at all 16 schools and colleges

Gaps in financial management processes and antiquated financial management systems remain

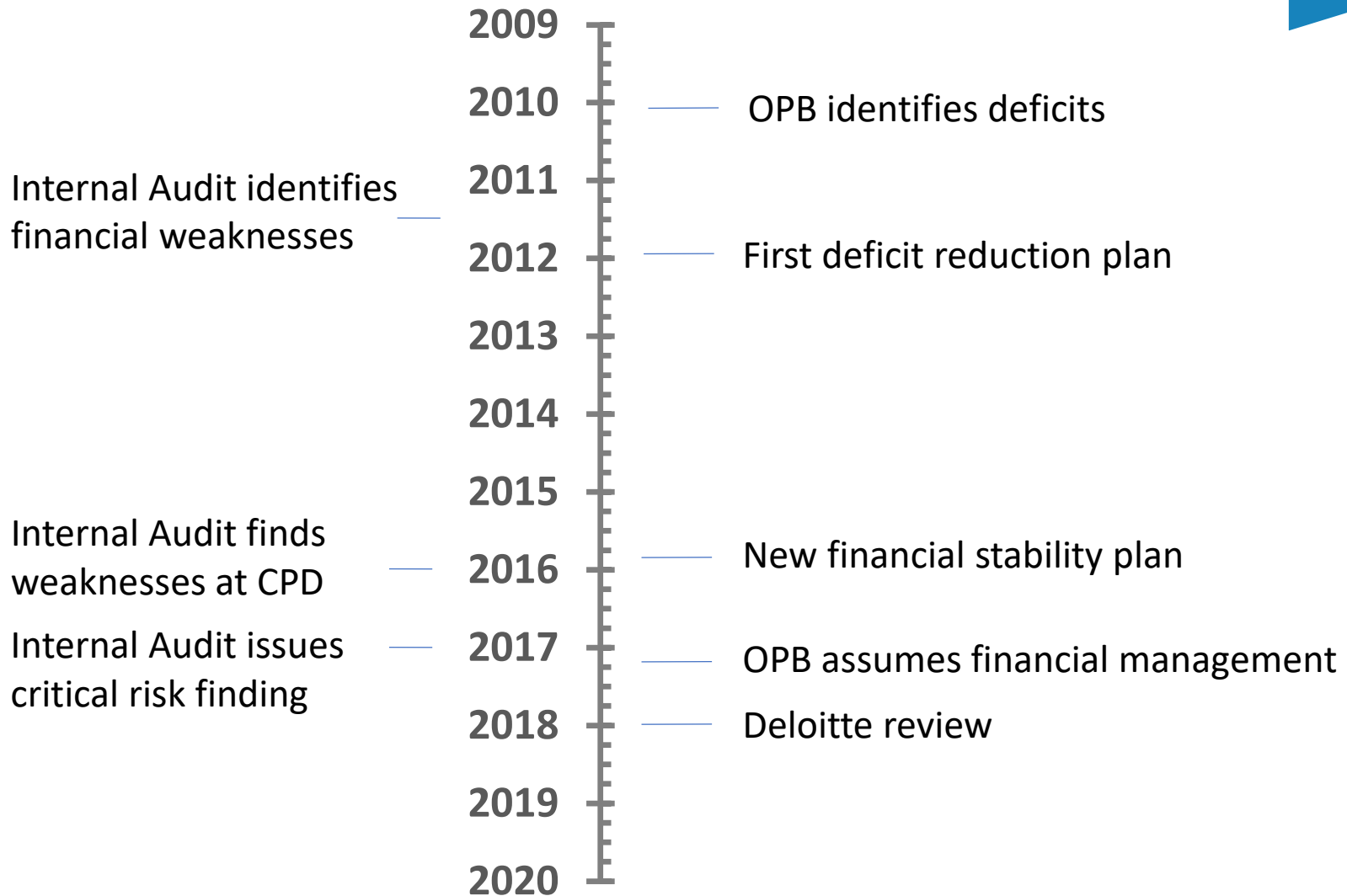
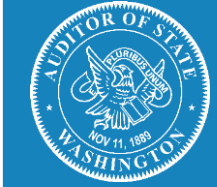


- The Treasury Office continues to rely on borrowers' specialized knowledge, despite their vested interests
- There is no authoritative guidance for developing financial stability plans
- The university's outdated financial management system has hindered effective oversight
- Training resources are insufficient to ensure academic experts are equipped for their financial responsibilities



Photo by Martin Kraft

Multiple university departments have intervened at the school during the past decade

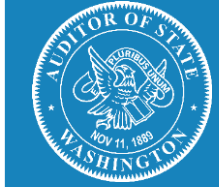


The school needs a long-term strategy to reconcile its financial, educational and service objectives

- The school lacks strategic direction balancing financial, educational and service objectives
- The school needs to determine how much unpaid care it can realistically provide
- The board, university leaders and the school must develop a clear plan to address long-standing financial liabilities



Summary of Recommendations



To the University of Washington

- Work with the School of Dentistry to **establish a feasible plan to address the accumulated debt**
- Identify the best resources to **train academic experts** with financial management responsibilities
- Have an impartial **external specialist review projections** for internal loans
- Establish authoritative **guidance for financial stability plans**

Summary of Recommendations

To the School of Dentistry

- Develop systems to **track root causes of write-offs**
- Determine which reports **all clinic administrators** should regularly use
- Complete a **cost-benefit analysis** of options for the Magnuson Park Clinic
- Develop a **clear policy for charity care**



Any questions?



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