



Office of the
Washington
State Auditor
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PERFORMANCE AUDIT

Report Highlights

University of Washington School of Dentistry: Improving Financial Health and Accountability

The University of Washington School of Dentistry is one of only two dental schools in the Pacific Northwest, serving students and patients from Washington and nearby states. The School operated at a deficit for over a decade without effective correction. These annual deficits resulted in \$40 million in operating debt owed to the university at the end of fiscal year 2019 – roughly the same amount as the School’s annual budget. To reduce the deficits, the School has laid off staff, increased tuition and requested additional state funding, but it has not yet eliminated its deficit.

Dental students treat patients under close faculty supervision. Faculty check each step students complete, so dental school clinics need patients willing to accept longer treatment times. These patients are predominantly covered by Medicaid, so Washington’s low Medicaid reimbursement rates have a significant impact on the School.

The School of Dentistry accumulated \$40 million in debt, owed to the university, due to poor decisions and challenges beyond its control

Washington’s Medicaid reimbursement rates are among the lowest in the country. Because the School of Dentistry depends on patients covered by this program, working with these low rates is beyond its control. On the other hand, the School’s Center for Pediatric Dentistry has brought in only one-quarter of projected revenue, due to foreseeable problems in its revenue forecasts. The Center’s revenue shortfalls have accounted for approximately half of the School of Dentistry’s debt. Most of the School’s other clinics also lose money. Finally, while the School of Dentistry has taken steps to increase revenue, no single action will be sufficient to repay its accumulated debt.

The School could use performance data to improve its financial health

By improving use of its existing data and collecting additional data, the School of Dentistry could better manage its operations. The School has not effectively tracked information it needs to identify and fix billing issues, which has resulted in about \$3.5 million in lost revenue from correctable problems. The School has recently adopted new performance measures to help manage its clinics, and now has many performance measures that align with leading

practices. However, the School still lacks some key management information, including information on faculty members' clinical availability and productivity, clinical costs and revenue collection. Finally, inconsistent use of clinic financial and productivity data contributes to the School's financial challenges.

The University of Washington has improved its monitoring and oversight to ensure schools spend within their budgets, but could take further steps to reduce the risk of future deficits

While the university gives its schools and colleges significant autonomy over financial matters, its Board of Regents is ultimately responsible for the university's financial well-being. The university has taken steps to improve its financial oversight and monitoring of schools and departments. However, gaps in the university's financial management processes and the antiquated financial systems that enabled the deficits at the School of Dentistry remain. Further, university training resources are insufficient to ensure department chairs are equipped for their financial responsibilities.

The university and the School need a long-term strategy to reconcile competing financial, educational and service objectives

The Board of Regents has the ultimate fiduciary responsibility for the university, and so must support the School of Dentistry as it develops a feasible plan. The School lacks strategic direction balancing its financial responsibilities with its educational and service objectives. The university expects the School to break even. At the same time, the School of Dentistry depends on patients willing to accept longer treatment times so students can gain necessary experience. Most of these patients cannot pay the full cost of care. Also, while the School is not officially a safety-net clinic, treating these patients meets its service objectives. The School needs to determine how much unpaid care it can realistically provide, and ensure faculty and staff work within set guidelines. Finally, the Board of Regents, university leaders and the School must develop a clear plan to address its long-standing financial liabilities.

State Auditor's Conclusions

As a result of structural financial imbalances and poor business decisions, the University of Washington's School of Dentistry has accumulated more than \$40 million in debt, which it owes to the university. Of equal concern to the accumulation of debt is the fact that the university allowed this to happen. The university's Board of Regents has given its schools and colleges significant autonomy over their financial decisions. While there is nothing inherently wrong with delegating those decisions, the university's leaders and the board are ultimately responsible for the financial impact of those decisions. To its credit, the university has taken positive steps to help prevent situations similar to what happened at the School of Dentistry from happening again. However, the gaps in financial oversight, the antiquated financial systems and the lack of business training for department chairs identified in this audit show the University of Washington still has plenty of work to do.

Recommendations

We made recommendations to the School of Dentistry to address issues with billing processes, to develop additional performance measures, and to ensure faculty can make the best use of available information, so the School can improve its financial situation. We also made recommendations to University of Washington leadership to address gaps in financial risk assessment processes, to develop better training resources for academic experts with financial management responsibilities, and to work with the School to develop a strategy to navigate unresolved structural issues.