13-103 Physicians Referral Service (PRS)

Strategic Area: Administration
Risk Type: Operations, Reputation
Audit Manager: Mary Ann Waterman/Ann Lovelady

Overview:

In accordance with the University of Texas System Policy (UTS 155), each institution is required to conduct an annual review of their Clinical Enterprise Business Operations, which includes the Physicians Referral Service Faculty Practice Plan (PRS Plan). For FY 12, the review focused on compensation awarded to Clinical Faculty based on their clinical effort and the achievement of departmental goals and performance metrics.

Membership in the Plan is mandatory for each faculty member who generates professional income and whose appointment is 51% or greater. In FY12, there were 855 Clinical Faculty members in the PRS Plan, and the faculty compensation budget was $252,339,418.

Faculty members are compensated using three mechanisms: Base Salary, Supplemental Compensation, and Incentive Compensation. Base Salary is that part of a faculty salary based on academic rank and specialty. Supplemental Compensation is awarded for additional duties, tasks, responsibilities or contributions not received as either Base or Incentive Compensation. Incentive Compensation is an award that is not fixed and is determined through the application of an established and equitably applied formula that rewards outstanding performance and productivity.

Incentive Compensation consists of two elements, the Baseline and Clinical awards. The Baseline award is received by all faculty if Institutional financial goals are met. The Clinical award is available to faculty with clinical effort of 60% or more and achievement of goals specific to their department. The Baseline award for FY 08 through FY12 was $2,000. The Clinical award ceiling was $15,000 until FY12, when the ceiling was raised to 12% of the faculty’s Base Salary. This notable change is depicted in Appendix A Pages 5-10.
Audit Results Summary:

Based on the testwork performed, we validated that control procedures were in place to ensure that the FY12 PRS Compensation Plan was appropriately reviewed and approved by the PRS Executive Committee and the University of Texas Vice Chancellor for Health Affairs. In addition, the Faculty Compensation and Benefits Advisory Committee, as well as department management, are actively involved in the overall monitoring of the Plan. We also determined that any significant changes to the Plan are made available to all Plan participants.

During this review, it came to our attention that the Institutional policy is not aligned with the Compensation Plan guidelines relating to the calculation of the Supplemental Annual Program (SAP) payments. We also noted that all executed Participation Agreements are not consistently returned to PRS.

Management Summary Response:

Management welcomes the recommendations presented and will take actions to ensure that both the Institutional Faculty Compensation Program Policy and Supplemental Annual Program (SAP) plan documents are in agreement with each other. PRS will also review the current process for PRS participation agreements to ensure completeness. Please see the specific management responses as documented below.

Number of recommendations to be monitored by UT System: 0
Objective, Scope and Methodology:

The objective included determining that the Compensation Plan was approved in accordance with the PRS Bylaws; is transparent and understood by Plan members; is monitored and modified as needed by management and the Compensation Committee. The scope of the audit included activity related to the Clinical Faculty Compensation Plan for FY12.

Our audit work included, but was not limited to, the following:

- Review of PRS Executive Council and UTS Board of Regents meeting minutes to verify proper approvals;
- Interviews with Chairs of the Executive Council to understand the advisory process and mechanisms in place for obtaining faculty input;
- Review of Participation Agreements and Memorandums of Appointment for selected faculty;
- Interviews with Faculty Plan members to determine the transparency of the Compensation Plan and their level of understanding of the Plan;
- Interviews with Department Chairs to understand processes in place to monitor and modify the Plan, if necessary, as well as to identify metrics used to measure productivity for annual incentive payments;
- Review of FY12 compensation payments for selected faculty members to determine whether they were accurate, complete, and aligned with institutional policy;
- Validation of performance goals, metrics, and criteria used to compute incentive payouts;
- Compilation of incentive participation percentages and award payments, salary and benefits, and Institutional productivity metrics to illustrate potential trends.

Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

The courtesy and cooperation extended by the Clinical Faculty, Physicians Referral Service and Faculty Academic Affairs (FAA) personnel is sincerely appreciated.

Sherri Magnus, CPA, CIA, CFE, CRMA
Vice President & Chief Audit Officer
August 27, 2013
Observation 1:

**Alignment of Institutional Policy with Compensation Plan Guidelines**

For FY 12, the SAP payments were calculated in accordance with established Plan guidelines but were not aligned with established policy. The Institutional Policy (ACA0044) states payout should be calculated using only the base component of faculty salary, while the Plan states it should be based on total retirement-eligible compensation (base component plus insurance premium supplements, administrative supplements, work-life, and longevity). The contradiction between the Plan guidelines and Institutional policy may cause confusion for Plan members.

**Recommendation:**
The Physicians Referral Service should coordinate with Faculty Academic Affairs to update Institutional policy to reflect current Plan guidelines.

**Management’s Action Plan:**
Responsible EVP: Leon Leach  
Owner: Wayne Wilson  
Approver: Chris McKee  
Due Date: February 28, 2014

Management will work with Faculty Academic Affairs to update the Institutional Faculty Compensation Program Policy (ACA0044) to revise the language on how the Supplemental Annual Program (SAP) payments are calculated so that both the Institutional Policy and SAP plan document are in agreement.

Observation 2:

**Tracking of Participation Agreements**

The Physicians Referral Service (PRS) Bylaws state, as a condition of membership and participation in the Plan, an Agreement of Participation (Agreement) assigning professional income to the Plan must be executed annually between each Member and the Institution. We noted one instance where the FY12 signed agreement could not be located. Further review indicated the agreement was completed and signed by the faculty member and sent to the department for management review. Upon request by PRS, the Department Chair signed and returned the agreement. Failure to obtain required signatures could result in questions concerning the enforceability of the Agreement.

**Recommendation:**
PRS should develop and implement a process to ensure that fully executed agreements are maintained on file.

**Management’s Action Plan:**
Responsible EVP: Leon Leach  
Owner: Wayne Wilson  
Approver: Chris McKee  
Due Date: February 28, 2014

Management will review the current process for PRS agreements and make improvements on the tracking of the executed signed agreements to ensure completeness. Process flows and guidelines will be updated accordingly.
Appendix A

The charts in Appendix A illustrate a comparison of Clinical Incentive awards to productivity (RVUs)\(^1\), revenue gross charges to compensation, and average incentive paid to incentive participation over the last 5 years for the Institution as well as the five departments generating the highest professional revenue for FY12 (Diagnostic Radiology, Pathology, Radiation Oncology, Plastic Surgery, and Surgical Oncology).

The illustrations are offered for informational purposes only. No attempt was made to determine whether changes in incentive compensation resulted in changes in productivity.

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\(^1\) RVUs are a productivity measure used by the healthcare industry. They reflect the relative levels of time and intensity associated with furnishing a Medicare Physician Fee Schedule service. By statute, all work RVUs must be examined no less often than every five years, with the most recent review completed in FY2009. **Source:** http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/medcrephysfeschedfctshl.pdf
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