The University of Texas Medical Branch
Audit Services

Audit Report

Medical Services, and Research and Development (MSRDP)
Faculty Compensation Plans

Audit Control Number 2013-007

July 2013

The University of Texas Medical Branch
Audit Services
301 University Boulevard, Suite 4.100
Galveston, Texas 77555-0150
Medical Services and Research Development Plan (MSRDP)
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Background
In fiscal year (FY) 2002, the University of Texas System (UT System) Board of Regents created faculty practice plans at each UT health institution to manage and hold in trust the professional income earned by faculty members to promote excellence in teaching, research, and patient care. The University of Texas Medical Branch (UTMB Health) created its first multi-component based faculty compensation plan in FY 2007. Over the ensuing years the Medical Services and Research Development Plan (MSRDP) compensation plan evolved into separate departmental plans designed to address the unique composition and needs of each academic department while following the principles of the institutional plan.

Each department manages its compensation plan with high-level oversight from the Office of Provost (Provost’s Office). During FY 2012, the Provost’s Office engaged an external consultant to assess the effectiveness of the decentralized structure and management of faculty compensation plans. Based on the consultant’s work, as well as industry benchmarking, the Provost’s Office plans to implement in FY 2014 a single compensation plan for all departments centrally managed by the Provost’s Office.

UT System Policy 155, Policies Regarding Clinical Enterprise Business Operations, stipulates presidents of health institutions with faculty practice plans should ensure the plans are audited annually. The UT System Audit Office provides guidance related to the specific focus of each audit and related audit procedures. The focus for FY 2013 is an audit of faculty compensation plans.

Audit Objectives
The objectives of this engagement include determining whether the compensation plans for the practice plan:

- Received the appropriate approvals in accordance with the bylaws;
- Is transparent and understood by plan members;
- Whether management and/or the appropriate compensation committee is monitoring the compensation plan and making modifications where and/or if needed; and,
- Whether there is a trend with respect to work RVUs/revenue/collections/volume or other metrics that can demonstrate changes to productivity.

Scope of Work and Methodology
The audit scope included select FY12 compensation plans and multi-year monitoring data. Prior to this engagement, UTMB Health Audit Services completed consulting engagements related to faculty compensation plans for the following eight School of Medicine (SOM) departments:

- Family Medicine
- Dermatology
- Orthopedic Surgery and Rehabilitation
- Psychiatry and Behavioral Sciences
- Biochemistry and Molecular Biology
- Radiology
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- Surgery
- Microbiology and Immunology

Audit Services leveraged this prior work and selected faculty compensation plans from the following five additional departments for this review:

- Obstetrics-Gynecology
- Internal Medicine
- Neuroscience and Cell Biology
- Anesthesiology
- Radiation Oncology

The audit methodology provided by the UT System Audit Office included interviewing key personnel, gaining an understanding of the selected compensation plans, and performing limited testing and trending performance and compensation data over multiple years.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Audit Results

Faculty Compensation Plan Governance
The Bylaws of The University of Texas Medical Branch at Galveston MSRDP Faculty Practice Plan (Bylaws) provide guidance related to compensation and oversight primarily in two articles:
Article IV – Standing Committees and Article IX – Faculty Compensation.

Article IV – Standing Committees Section 6.1.6 articulates the Faculty Compensation Advisory Committee membership and its responsibilities. Audit Services noted the Institutional Faculty Compensation Committee serves as the MSRDP Compensation Committee. During our review of the 1 Faculty Compensation Committee minutes and the related IHOP 5.5.7 Faculty Compensation Committee, we noted the committee activities and functioning as intended and in alignment with the requirements of the Bylaws with the exception of the chair appointment. The Bylaws require the Senior Clinical Administrator (Chief Physician Executive) to be the chair of the Faculty Compensation Advisory Committee. This exception was noted in the FY 2010 MSRDP audit related to governance and the Faculty Group Practice subsequently sought approval from UT System to change the Bylaws related to the appointment of the chair position to allow for use of a single committee. It is Audit Services understanding as of the last follow-up of the FY 2010 audit, this change was not approved by UT System, and the Faculty Group Practice will be establishing a separate MSRDP Compensation Committee in accordance with the Bylaws.

Article IX – Faculty Compensation indicates compensation shall be comprised of three major components with subparts as determined by the President after consulting with faculty as required in section 5.2. The three components are (a) Base Salary, (b) Supplemental Compensation, and (c) Incentive Compensation. Additionally, the compensation plan is to be approved by the Executive Vice Chancellor for Health Affairs. Although the institutional compensation plan, which provided the guiding framework for the individual departmental
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plans, was appropriately approved by the Executive Vice Chancellor for Health Affairs (EVC-HA), Audit Services noted that the highest level of approval for individual departmental compensation plans was the Dean of the School of Medicine. The EVC-HA approved the new compensation plan for fiscal year 2014; however, there is some consideration being given to allowing for development of further departmental specific guidance. Whether these departmental specific guidelines require EVC-HA approval remains unclear.

**Recommendation 2013-007-01-R:**
The Office of the Provost should clarify with the UT System Executive Vice Chancellor for Health Affairs the approval expectations related to individual departmental compensation plans should they be developed based on the framework of the approved institutional compensation plan.

**Management’s Response:**
UTMB has submitted an updated Faculty Compensation & Incentive Plan for approval. Implementation of the updated plan is scheduled for FY2014. The new plan achieves a centralized model in line with UT System’s recommendation.

**Implementation Date:** Anticipated FY2014 (pending UT System approval)

**Other Observations related to Policies and Procedures and Website Information**
Detailed policies and procedures are effective control activities that provide guidance to staff, provide reasonable assurance that the institution is in compliance with applicable laws and regulations and help ensure that management directives are followed. Guidelines for UTMB Health’s Institutional Handbook of Operating Procedures (IHOP) state policies should be reviewed at least once every three years, unless a change with internal operations or regulatory requirements necessitate an earlier review.

Audit Services noted IHOP policies 5.5.5 *Administrative Component of Compensation for Academic Administrators* and 5.5.7 *Faculty Compensation Committee* are being reviewed in accordance with the guidelines. However, we noted the Bylaws posted on the School of Medicine Faculty Handbook website were significantly outdated and do not reflect the revisions made in 2009.

**Recommendation 2013-007-02-R:**
The Office of the Provost should ensure the most current versions of faculty related IHOPs and the MSRDP Bylaws are posted in the faculty section of the School of Medicine website.

**Management’s Response:**
The Office of the Provost will work with the Office of the President; Operations to ensure faculty related IHOP policies are reviewed and updated in accordance with IHOP policy guidelines. The Office of the Provost is in the process of updating Academic Enterprise departmental websites in an effort to provide accurate and consistent information. Links to faculty related IHOPs as well as posting of the MSRDP Bylaws will be addressed during the review.
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Implementation Date: Anticipated FY 2014 - links and bylaws to be addressed by December 2013

Departmental Faculty Compensation Plan Reviews
Compensation Plan Documentation
Audit Services review of the five selected faculty compensation plans indicated all five plans established clear guidelines for faculty performance and compensation. However, we noted two of the five compensation plans did not reflect current objectives or otherwise contained outdated information, and one plan did not include all the required, documented approvals. It is anticipated these issues will be addressed with the implementation of the new, consolidated compensation plan in FY2014.

Compensation Structure
The compensation structure for all five departmental plans reviewed and the previously reviewed departments contained the following components:

- Core Salary – Applicable only to full-time faculty members and to part-time faculty who hold the title of Assistant Professor, Associate Professor or Professor.
- Specialty/Discipline-Specific Salary – Based on a faculty member’s performance of assigned duties and responsibilities, obtainment of research grants and contracts, professional achievements, and fees billed and collected for professional services. The departments use the most current American Association of Medical Colleges (AAMC), Society of Academic Anesthesiology Chairs (SAAC), or Medical Group Management Association (MGMA) compensation data to establish subspecialty or discipline specific salaries. The core and specialty/discipline specific salary components combine to form the “Institutional Base Salary” (IBS).
- Incentive Payment – Faculty members may receive incentive payments if their performance exceeds the guidelines set forth in each plan, and the department can financially support the incentive payment. Data used to assess productivity ranges from gross collections to total “relative value units” (RVUs) to salary coverage through the obtainment of research grants.

In accordance with the UT System Budget Rules and Procedures, each faculty member’s salary is documented in an annual “Memorandum of Appointment” (MOA), approved by the Dean of the School of Medicine, Department Chair and University President. Audit Services review of 106 randomly selected MOAs across the five selected departments indicated all contained required information and proper approvals.

Oversight and Monitoring
Audit Services interviewed the five departmental administrative directors to gain an understanding of the established monitoring processes for their respective faculty compensation plans. Four of the five directors indicated they provide regular performance reports throughout the year to the faculty members allowing them to gauge their productivity and/or revenue generated. Faculty members from the fifth department receive compensation information during their annual performance review. Additionally, all departments hold monthly or quarterly meetings, during which faculty can discuss compensation issues. Audit Services review of oversight and monitoring activities for the eight departments previously reviewed
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during their annual performance review. Additionally, all departments hold monthly or quarterly meetings, during which faculty can discuss compensation issues. Audit Services review of oversight and monitoring activities for the eight departments previously reviewed indicated similar levels of reporting and communication with faculty members. Overall, appropriate monitoring activities appear to be in place and functioning as intended.

Faculty Interviews  
Audit Services interviewed 44 (22%) of the 197 faculty members from the five departments reviewed to assess their awareness and understanding of their respective department’s compensation plan. Forty-two (96%) of those interviewed were aware of their compensation plan; however, only 27 (61%) felt they understood how the plan worked. Thirty-two faculty members (73%) believed participating in the compensation plan was personally beneficial, while only 27 (61%) believed compensation plan impacted productivity.

All 44 faculty members interviewed (100%) indicated they could contact either their departmental chair or administrative director for questions about their compensation plan. Thirty-two members (73%) indicated they received regular reports related to achieving the incentive portion of their plans.

Faculty member interviews from the eight departments previously reviewed indicated a greater understanding of how their respective plans worked. Interview results related to awareness of compensation plans, availability of a contact to answer questions and receipt of regular reports were consistent with the results of the five additional departments reviewed.

**Recommendation 2013-007-03-R:**  
The Office of the Provost, working in conjunction with departmental chairs and administrative directors, should develop and implement an ongoing communication plan to help ensure faculty members receive sufficient and timely information relative to their compensation under the plan.

**Management’s Response:**  
The new faculty compensation and incentive plan will be monitored and managed centrally by the Provost Office, interactive dashboards will be available to leadership and faculty members, and individual reports will be distributed monthly to plan participants.

**Implementation Date:** Anticipated FY 2014 (new faculty compensation and incentive plan pending UT System approval. Reporting tools, e.g., interactive dashboards and individual reports start September 2013.)

Compensation Testing  
Using FY 2012 salary data, Audit Services tested the following four compensation elements for the 106 faculty members eligible for participation in the incentive portion of their compensation plans.

- **Memorandum of Appointment (MOA) tied to PeopleSoft** – Institutional base salary (IBS) amounts listed on the MOAs tied to the corresponding amounts in PeopleSoft with no exceptions.
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- Alignment with Industry Benchmarks – Specialty/discipline-specific component compensation listed on the MOAs appeared appropriately aligned with the applicable industry compensation survey benchmarks.
- Incentive Payouts – All incentive payouts were consistent with the incentive compensation elements described in the department’s compensation plan and properly supported by appropriate documentation and management approvals with no exceptions.
- Chair Discretion – Audit Services noted three instances in which Chair discretion was used to award additional payments to faculty members. All three instances were appropriately supported by documentation justifying the additional compensation.

Productivity and Compensation Trends
Over the past five years, the Office of the Provost has used a number of different metrics and calculation data to monitor and benchmark individual faculty and departmental productivity and compensation for most departments. While the changes in metrics were made in an attempt to develop more meaningful information, in retrospect, it has resulted in the inability to create meaningful comparative trending information over multiple years.

Recommendation 2013-007-04-R:
The Office of the Provost, working in conjunction with departmental chairs and administrative directors, should develop and implement a consistent methodology to compile, validate, and track faculty member productivity and compensation.

Management’s Response:
The new faculty compensation and incentive plan will be monitored and managed centrally by the Provost Office, interactive dashboards will be available to leadership and faculty, and individual reports will be distributed monthly to plan participants.

Implementation Date: Anticipated FY 2014 (new faculty compensation and incentive plan pending UT System approval. Reporting tools, e.g., interactive dashboards and individual reports start September 2013.)

As part of its audit guidelines, the UT System Audit Office requested a comparison of faculty compensation and incentive compensation with revenue, collections and/or other agreed upon productivity measures for the period FY 2008-2012. The changes in metrics and calculation data during this period coupled with the operational impact of Hurricane Ike during FYs 2009-2010 resulted in a determination that data from FY 2011 and FY 2012 appeared the most comparable for trending purposes.

Audit Services prepared several trending graphs utilizing FYs 2011-12 productivity, revenue, and compensation data obtained from the Office of the Provost. The graph below illustrates the percentage change from FY 2011 to FY 2012 of total “relative value units” (RVUs), compensation, collections, and incentive compensation data for all departments reporting measurable data.
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Appendix A illustrates several different comparative trends for all SOM departments reporting measurable data, as well as the departments selected for testing during this engagement.

**Conclusion**
Audit Services completed review of the design and management of UTMB Health's faculty compensation plans, noting the current departmental plans will be consolidated into one plan in FY 2014. Opportunities exist to strengthen compensation plan governance related to obtaining appropriate levels of approval; updating policies, procedures and website information; enhancing communications with faculty members; and, ensuring the development and implementation of a consistent methodology for compiling, monitoring, and reporting productivity data.

We greatly appreciate the assistance provided by the Provost's Office, and staff from the Departments of Obstetrics/Gynecology, Internal Medicine, Neuroscience and Cell Biology, Anesthesiology, and Radiation Oncology, and hope that the information presented in our report is beneficial.

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Appendix A

Internal Medicine

- Reported RVUs FY11
- Collections for FY12
- Incentive Compensation for FY11

- Reported RVUs FY12
- Compensation for FY11
- Incentive Compensation for FY12

Ob-Gyn

- Reported RVUs FY11
- Collections for FY12
- Incentive Compensation for FY11

- Reported RVUs FY12
- Compensation for FY11
- Incentive Compensation for FY12
Radiation Oncology

- Reported RVUs FY11: 28,442
- Reported RVUs FY12: 32,205
- Collections for FY11: 1,096,972
- Collections for FY12: 1,795,072
- Compensation for FY11: 3,438,173
- Compensation for FY12: 3,435,420
- Incentive Compensation for FY11: 393,305
- Incentive Compensation for FY12: 857,737
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![Bar Chart]

- Dermatology
- Family Medicine
- Internal Medicine
- Neurology
- Ob-Gyn
- Ophthalmology and Visual Sciences
- Orthopaedic Surgery and Rehabilitation
- Otolaryngology
- Pathology
- Pediatrics
- Psychiatry and Behavioral Sciences
- Radiation Oncology
- Radiology
- Surgery
- Total

Legend:
- % of Change wRVU
- % of Change Incentive Compensation

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The chart shows the percentage change in collections and total compensation for various departments. The departments include Dermatology, Family Medicine, Internal Medicine, Neurology, Ob-Gyn, Ophthalmology and Visual Sciences, Orthopaedic Surgery and Rehabilitation, Otolaryngology, Pathology, Pediatrics, Psychiatry and Behavioral Sciences, Radiation Oncology, Radiology, Surgery, and Total.

- Dermatology: % of Change Collections, % of Change Total Compensation
- Family Medicine: % of Change Collections, % of Change Total Compensation
- Internal Medicine: % of Change Collections, % of Change Total Compensation
- Neurology: % of Change Collections, % of Change Total Compensation
- Ob-Gyn: % of Change Collections, % of Change Total Compensation
- Ophthalmology and Visual Sciences: % of Change Collections, % of Change Total Compensation
- Orthopaedic Surgery and Rehabilitation: % of Change Collections, % of Change Total Compensation
- Otolaryngology: % of Change Collections, % of Change Total Compensation
- Pathology: % of Change Collections, % of Change Total Compensation
- Pediatrics: % of Change Collections, % of Change Total Compensation
- Psychiatry and Behavioral Sciences: % of Change Collections, % of Change Total Compensation
- Radiation Oncology: % of Change Collections, % of Change Total Compensation
- Radiology: % of Change Collections, % of Change Total Compensation
- Surgery: % of Change Collections, % of Change Total Compensation
- Total: % of Change Collections, % of Change Total Compensation

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