UT Southwestern
Medical Center

The University of Texas Southwestern Medical Center

Employee Compensation Review

Internal Audit Report 16:17

November 30, 2016

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Executive Summary

Background

The University of Texas Southwestern (UT Southwestern) has approximately 15,000 employees including Classified, Administrative and Professional (A&P), and Faculty. Additionally, there are other employees at UT Southwestern not categorized, including researchers, students and temporary employees. Compensation administration is decentralized based on the employee classifications as shown in the table below.

Employee Classification	Number of Employees	Responsible Administrator (collectively the "Administrators")
Classified	11,391	Compensation & Performance Management ("Compensation")
A&P	502	Office of Budget & Resource Planning ("Budget Office")
Faculty	2,705	Office of Dean ("Dean's Office") / Provost Finance Office

Each Administrator is responsible for managing and/or administering compensation, including new hire salaries, managing salary ranges, merit and promotional increases, as well as market and internal equity adjustments. Compensation is responsible for managing salaries of Classified employees for 207 departments and provides ad hoc support to departments administering compensation for A&P and Faculty employees as needed.

The Budget Office facilitates the data collection and reporting of compensation changes, including merit, promotional increases and other increases for A&P employees to the University of Texas System (UT System). Compensation supports the Budget Office in reviewing A&P promotional and other increases, as well as job changes, by reviewing supporting documentation and conducting market analyses. Compensation changes for A&P employees are reviewed and approved by Executive Leadership team before they are finalized and reported to the UT System.

The Dean's Office and Provost Finance Office work together to manage compensation for UT Southwestern's Faculty. Compensation does not support the administration of this process; however, when faculty members are categorized as "highly compensated"[1] as defined by UT System policy, Compensation facilitates the process of obtaining an external third-party review of compensation paid to a highly compensated faculty member as required by UT System policy.

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[1] A faculty member is "highly compensated" if total compensation is $500,000 or more and greater than the 90th percentile total compensation salary data provided in the Association of American Medical Colleges Faculty Salary Survey.

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The Administrators utilize various tools to administer compensation including spreadsheets, homegrown tools developed by Information Resources, and various information systems. PeopleSoft (HCM) is the primary information system where master employee compensation data is maintained. The tools and systems are not integrated and data is not directly interfaced, but uploaded between systems using extract files in excel or CSV format. An inventory of UT Southwestern's compensation tools and systems is included in Appendix C.

Scope and Objectives

The Office of Internal Audit and Ernst & Young (EY) have completed the Employee Compensation Review audit. This is a risk based audit and part of the fiscal year 2016 Audit Plan.

The audit scope period included activities of Compensation, Budget Office, Dean's Office, and Provost Finance Office from September 1, 2015 to July 31, 2016. The review included operations from the annual salary review and merit processes for Classified and A&P employees, Faculty appointment and reappointment processes, and incentive pay practices up to and including the process of loading pay increase data into UT Southwestern's HCM. Recruiting, onboarding, and payroll operations were not included in the scope of this review. Audit procedures included interviews with stakeholders, review of policies and procedures and other documentation, substantive testing, and data analytics.

We conducted our examination according to guidelines set forth by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

The primary objectives of the audit were to evaluate the adequacy and effectiveness of processes and controls for managing compensation as well as alignment with leading practices. Specifically, fieldwork was initiated, performed, and completed during September and October 2016 to provide reasonable assurance that:

- Processes and controls exist to manage employee compensation, including various types of compensation changes initiated and/or approved;
- Compensation processes and procedures were in compliance with applicable UT Southwestern, UT System, State, and Federal policies;
- Tools and methodologies for assessing market competitiveness are consistent with leading practices;
- Compensation changes are accurately calculated and recorded in HCM and other tools/systems; and
- Appropriate system controls are in place.

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Conclusion

Overall, on the maturity curve, as illustrated in Appendix F, UT Southwestern's compensation administration processes would be considered "Established." The following key practices below support the assessment and rating determination.

- UT Southwestern has a compensation philosophy for Classified employees that is clearly articulated and shared with department administrators by the UTSW Human Resources function. For Faculty and A&P employees, the compensation philosophy is driven by the respective leaders and is not as clearly articulated.
- Processes and procedures are documented and consistently applied by Compensation, Budget Office, Dean's office and area departments (e.g., Basic Sciences, Clinical and Centers).
- Homegrown tools and an established HR system enable each Administrator to manage classified compensation effectively.

The primary opportunity for improvement relates to centralizing non-faculty administration of compensation programs, policies and practices under the Compensation department. The Compensation department will continue to provide consultation and guidance for faculty members as needed. This would improve overall governance and management of UT Southwestern's compensation programs, policies and practices. In addition, there are opportunities to integrate systems and improve security access to ensure compensation changes are recorded accurately and in accordance with established policies and procedures and improve processes (e.g., benchmarking), Implementing these improvements, would help to move UT Southwestern's compensation administration function to the "Advanced" stage of the maturity model.

Included in the table below is a summary of the observations and improvement opportunities noted, along with the respective disposition of these observations within the Medical Center internal audit risk definition and classification process. See Appendix A for Risk Rating Classifications and Definitions.

Priority (0)	High (1)	Medium (5)	Low (4)	Total (10)

Strengths identified during the audit include:

- Institutional level policies, processes and procedures are comprehensive and up-to-date.
- Controls for identifying data errors and anomalies are working effectively and are adequate.
- UT Southwestern compensation policies and practices are applied consistently.

The key improvement observations/opportunities risk-ranked as high and medium are summarized below.

- **Restrict HCM System Access to Direct Changes to Compensation Data –** HCM system access to make direct changes to compensation data outside the system workflow is not appropriately restricted based on user responsibilities.

- **Consolidate Compensation Administration Process for A&P and Classified Employees –** Compensation administration is governed in a decentralized manner for A&P and Classified Employees, which could lead to the disjointed flow of information. In

addition, compensation for A&P employees is not adequately supported, maintained and administered by compensation professionals.

- **Standardize and Automate Annual Salary Review and Reappointment Processes for A&P employees –** The Budget Office utilizes paper forms (e.g., Exhibit C of the budget instructions) and Excel spreadsheets to administer the Annual Salary Review and reappointment processes annually. Exhibit C does not include fill-in-form space for additional compensation payments such as, deferred compensation, supplemental administrative compensation (SAC) and incentives. As a result, additional time is spent collecting this information from departments. Due to lack of automation, many manual controls have been implemented, additional resources are required to complete the process on a timely basis, data collection and validation processes are inefficient, and there is a greater risk for manual error.

- **Evaluate Alternative Human Resource and Compensation Administration Tools –** The applications used to administer compensation are not integrated, which creates inefficiencies and increases the risk for manual error. UT Southwestern's homegrown Merit Tool was designed and is managed by UT Southwestern's internal programmers. As a result, scalability is limited and potential attrition of necessary skill sets may negatively impact sustainability of the existing tool.

- **Evaluate Current Compensation Department Staffing –** Compensation department staffing relative to the employee population is below the market average (e.g., 1 to 1,423). Current staffing may not be adequate to effectively administer compensation programs and processes needed to support the growth of the organization.

- **Publish Classified Pay Plan in Accordance with UT System Policy –** UT Southwestern is not in compliance with UT System's Classified Pay Plan Policy, which requires classified pay plans to be published on the internet. In addition, managers may not know that this information is available within HCM and can be utilized for compensation decision making.
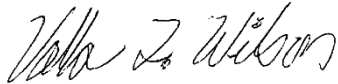
Additional details for the key improvement opportunity listed above and other lower risk observations are listed in the Detailed Observations and Action Plans Matrix (Matrix) section of this report.

Executive Summary

We would like to take the opportunity to thank the departments and individuals included in this audit for the courtesies extended to us and for their cooperation during our review.

Sincerely,

Valla Wilson, Associate Vice President for Internal Audit, Chief Audit Executive

Audit Team:
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           Cameron Slocum, Vice President and Chief Operating Officer for Academic Affairs
           Ivan Thompson, Vice President of Human Resources
           Michael Serber, Vice President, Financial Affairs
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           Jodi Levy, Assistant Vice President of Business Administrative Systems
           Kenneth Kellough, Assistant Vice President, Budget & Resource Planning
           Jim Ovens, Director of Compensation
           Ruth Womack, Director of Office of the Dean
           Thomas Spencer, Director of Operations, Academic and Administrative Information Resources

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: High ● 1. **Restrict HCM System Access to Direct Changes to Compensation Data** Reviewed a selection of users with access to make direct data changes to compensation data in HCM and noted that access was not appropriately restricted. The following access issues were noted: • Users were identified that no longer required access as part of their job responsibilities. • Users needing "read only" access had access to make direct data changes. Direct data changes in HCM can be performed outside the system workflow, therefore if system access is not appropriately restricted; the risk increases that an unauthorized direct data change may be made.	1. Remove system access for users identified with inappropriate access. 2. Review updates made by users with inappropriate access to ensure all updates were properly reviewed and approved. 3. A periodic review of all users with access to make direct data changes to compensation data should be performed to identify users that no longer require such access. 4. User access should be appropriately modified if necessary based on the periodic access review.	**Management Action Plans:** 1. Access for users identified with inappropriate access will be removed. 2. Detailed report is being generated of all compensation updates made by users with inappropriate access. These transactions will be reviewed to ensure all were properly reviewed and approved in accordance with Institutional policy. 3. Security access review will be performed annually. 4. Based on results of the periodic review, we will update security access as deemed necessary. **Action Plan Owners:** Dipti Ranganathan, Associate Vice President Academic & Administrative Information Systems Jodi Levy, Assistant Vice President of Business Administrative Systems **Target Completion Dates:** 1. Complete 2. January 31, 2017 3. August 31, 2017 4. August 31, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium ⬤ 2. **Consolidate Compensation Administration Process for A&P and Classified Employees** The Budget Office facilitates the reporting of A&P compensation to UT System annually and is not responsible for any of the following: developing and maintaining the compensation program for A&P employees, approving compensation, or providing guidance to department managers—all of which are traditional functions of a compensation department. Because Compensation has a limited role in assisting the Budget Office and Small Group in administering compensation for A&P employees, the flow of information is disjointed and compensation for A&P employees is not adequately supported, maintained and administered by compensation professionals.	1. Develop project plan for reassigning compensation administration responsibilities/tasks to Compensation. 2. Revise and develop process and procedural guidelines for administering compensation for A&P professionals.	**Management Action Plans:** 1. The Compensation team and Budget Office will coordinate to develop a project plan to reassign roles and responsibilities related to A&P employees from the Budget Office to the Compensation team. This plan will be harmonized with the dates associated with the new technology to be implemented as a part of Project Reboot. Anticipated implementation is early FY 2019. The project plan will include interim steps including definition of roles and responsibilities, process updates as well as a new technology platform. 2. Based on the project plan, process and procedure guidelines will be updated. **Action Plan Owners:** Ivan Thompson, Vice President Human Resources Mike Serber, Vice President Finance Ken Kellough, Assistant Vice President, Budget & Resource Planning Jim Ovens, Director Compensation **Target Completion Dates:** 1. January 31, 2018 2. January 31, 2019, dependent on timing of technology implementation related to Project Reboot

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 **3. Standardize and Automate Annual Salary Review Process for A&P Employees** Standardized and automated annual salary review and reappointment processes are not in place for A&P employees. Our review of procedures determined that A&P salaries are not benchmarked annually or biannually. This increases the risk of misalignment of certain A&P salaries with the competitive market, which could affect employee morale and lead to turnover. Department administrators review salary survey data and Small Group considers survey data provided by the Association of American Medical Colleges (AAMC) for applicable positions. Compensation conducts competitive market analyses on a limited basis (e.g., when there are requests for job changes or promotions). The Annual Salary Recommendation Forms ("Exhibit C") and Review Grid utilized to administer compensation changes for approximately 500 employees are both paper based. Our review of the A&P reappointment process revealed that: - Due to lack of automation, paper documentation is relied upon to collect compensation changes and timing of the review and approval process is extended. - A financial analyst must review and reconcile all data submitted by each Department. This process must occur in a short time period so there is no delay in reporting A&P compensation data to UT System.	1. Identify existing tools and systems that can be used to automate processes and efficiently and accurately capture all relevant compensation information for analysis, review, validation and reporting purposes. 2. Establish timeline and process for performing compensation market analysis that coordinates with the annual salary review and reappointment processes. 3. Consult with Information Resources to establish procedures and controls for system access and to protect data integrity for any tools utilized.	**Management Action Plans:** 1. As noted in #2 above, Human Resources is working with Information Resources (IR) to identify and implement tools and systems (Project Reboot) that can be used to increase efficiencies with the department. In addition, a project plan is also in place to streamline the Compensation process, this is the Compensation Process Initiative. The goal of this project is to synchronize the timing of the performance review and merit cycles. Both projects will include evaluation of processes and controls in addition to technology. 2. The Compensation team will perform representative sample benchmarking for A&P positions that can be matched to benchmarking surveys and provide to leaders for evaluation during the FY 2017 annual merit process. Then add on to that in FY 2018 with goal to have benchmarking in place for all A&P positions in FY 2019. 3. Once the new tools and applications are identified, Human Resources and IR will include in the implementation project plan due dates for defining appropriate system access and data integrity validation.

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
• Approximately four full calendar days and four financial analysts are required to manually enter information into the Review Grid and to review information submitted into Hyperion. The existing process is highly inefficient and prone to manual error. Leading practice is to conduct an annual or biannual review of salaries to protect against employment market risks (e.g., lack of competitiveness in the market). Without a standardized and automated salary review process for key positions, department administrators and employees cannot confirm that salaries are competitive and reflective of the value of each job in the market place. Additionally, potential issues may arise regarding retention, employee morale, and recruitment.		**Action Plan Owners:** 1. Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation Mike Serber, Vice President Finance Ken Kellough, Assistant Vice President, Budget & Resource Planning 2. Jim Ovens, Director Compensation 3. Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation **Target Completion Dates:** 1. January 31, 2019, dependent on timing of technology implementation related to Project Reboot 2. April 30, 2017 First sample to be completed by April 30, 2017 with a goal of full review completed by 2019 3. January 31, 2019, dependent on timing of technology implementation related to Project Reboot

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium ● 4. **Evaluate Alternative Human Resource and Compensation Administration Tools** Compensation is administered using several different tools and systems as illustrated in Appendix C. Due to lack of integration, extract files in excel or .CSV format are utilized to download and upload compensation information to HCM. Upload files are stored on shared networks and transmitted via e-mail to Information Resources. Although the extract files are reviewed for anomalies and data is validated after the upload takes place, this manual reconciliation process could be eliminated. Additionally, the lack of automation exposes UT Southwestern to the risk of loading incomplete or inaccurate data. Currently, a homegrown tool is utilized to administer merit increases for Classified employees. In addition, Excel and paper forms are utilized to manage and administer compensation. Paper forms and spreadsheets are prone to error, and homegrown tools run the risk of becoming out of date and not scalable. Further, key programmers responsible for maintaining and updating the tool could retire or leave UT Southwestern resulting in the loss of valuable institutional knowledge. Leading practice is to administer compensation using fully integrated systems.	1. Evaluate alternative compensation administration systems. 2. Train additional programmers on current systems to minimize the risk of losing institutional knowledge. 3. Assess and develop a potential short-term plan for improving current data transmission processes.	**Management Action Plans:** 1. As noted in #2 above, Human Resources is working with IR to identify and implement tools and systems (Project ReBoot) that can be used to increase efficiencies with the department. 2. We will coordinate with IR to ensure resources are available to support the existing home grown compensation tools until the new tools and applications are available. 3. We will coordinate with IR to develop a plan for improving the data transmission processes using the current tools. **Action Plan Owners:** Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation Dipti Ranganathan, Associate Vice President Academic & Administrative Information Systems **Target Completion Dates:** 1. January 31, 2019, dependent on timing of technology implementation related to Project Reboot 2. March 31, 2017 3. March 31, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium 🟡 5. **Evaluate Current Compensation Department Staffing** Currently, four compensation consultants support approximately 11,400 Classified employees. Compensation also provides support to departments on an as needed basis on matters that impact Faculty and A&P employees (e.g. job creation/development, reorganizations, etc.). See Appendix B for details on compensation department assignments. The current compensation consultant to full-time employee ratio, when including all UT Southwestern employees, is below market average (1 to 3,211 versus 1 to 1,423). The ratios remain below average even after Faculty, A&P and other professionals are excluded (1 to 2,847).	1. Evaluate individual ratios and consider re-assigning departmental responsibilities. 2. Evaluate responsibilities and division of duties/departments to determine if current resources are sufficient to accomplish the necessary work. If the current resources are not sufficient, Compensation should determine how to best address the needs and to align more closely to leading practice.	**Management Action Plans:** 1. The Compensation team and Vice President of Human Resources will develop a business plan to evaluate the effectiveness of realigning the compensation function taking into consideration technology, including required resources and improved business processes. 2. The Director of Compensation will evaluate responsibilities and division of duties/responsibilities and provide a recommendation to the Vice President of Human Resources, if needed, for additional resources. This could include temporary resources in interim situations as deemed necessary. **Action Plan Owners:** Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation **Target Completion Dates:** 1. June 2017 with implementation in January 2019 and in conjunction with the Project Reboot project plan 2. September 30, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Medium ● **6. Publish Classified Pay Plan to Ensure Compliance with UT System's Policy for University Classified Pay Plans** UT Southwestern is not in compliance with UT System Policy UTS133, which requires that the University's Classified Pay Plan be published on the internet or other website as designated by UT System. *Classified Pay Plan Policy (UTS133: Classified Pay Plan)* states, "to facilitate sharing of knowledge and administrative resources, each institution shall make its classified pay plan accessible on the Internet or other site determined by UT System." In addition, managers may not be aware that Compensation tools and systems are available to them within HCM to provide to employees as requested. Compensation provides an update during New Leader Orientation, however all managers may not attend the training and as a result are not aware that the Classified Pay Plan, which includes job descriptions, salary ranges and structures, is available in HCM through Manager Self Service. Without knowledge of how to access the pay plan in HCM, management is not fully equipped to make informed compensation decisions.	1. Review UTS133 and identify/outline all components of the pay plan that must be published. 2. Consult with Information Resources and the Marketing Department to develop project plan for publishing the Classified Pay Plan. 3. Establish protocols and procedures for reviewing and timely updating of the published Pay Plan. 4. Provide timely communications or additional trainings to Managers on how to access the compensation information in HCM.	**Management Action Plans:** 1. Outline all components of the pay plan to expand publication and availability to increase compliance in compliance with UTS133. 2. Coordinate with IR and Marketing to develop a plan to allow the external publication of the Classified Pay Plan. 3. Coordinate with IR and Marketing to develop a dynamic link to the internally published information to ensure the externally published information is updated and accurate 4. Educate or remind management on the availability of compensation data through the HCM application. **Action Plan Owners:** Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation Thomas Spencer, Director of IR Operations, Administrative Systems Jodi Levy, Assistant Vice President of Business Administrative Systems **Target Completion Dates:** 1. Completed 2. May 31, 2017 3. May 31, 2017 4. March 31, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low ● 7. **Update and Refine Existing Salary Ranges/Structures** UT Southwestern maintains several different salary structures for its Classified jobs only (note: Structures do not exist for A&P jobs). The structures are reviewed annually, but are only adjusted if benchmark data for a significant number of jobs within a range increase significantly. UT Southwestern's standard practice is to adjust a job's grade and not to move the structure. A review of the classified structures and our data analytics identified the following: • Spreads for the Hospital Classified structures (C, P and RAD) were not consistently 50% at the lower end of the structure and 75% at the upper end as indicated in UT Southwestern's compensation guidelines. • Range spreads were as high as 97% on the low end of the structure and 115% on the high end of the structure. • Approximately 10% of the merit increases reviewed because they were greater than 5% were granted to bring the employee up to the minimum of the range for their respective position. A leading practice is to evaluate salary structures annually. The inconsistency between range spreads results in gaps between grades, which has required departments to grant increases greater than 5% to bring an employee to the minimum of the range for a new position.	1. Calculate current range spreads and evaluate whether sufficient overlap exists between grades. 2. Realign positions to the structure and benchmark positions as necessary to determine market value. 3. Establish a formal process for reviewing structures annually. 4. Formulate communication plan and trainings as needed.	**Management Action Plans:** 1. Calculate current range spreads and provide recommendations for updates to grades as needed. 2. Based on analysis in #1, provide recommendations for position realignments to business owners for review and approval. 3. Develop procedures for annual review of market value within ranges. 4. Incorporate communications into existing compensation related communications with business owners. Enhance existing training as needed. **Action Plan Owners:** Jim Ovens, Director of Compensation **Target Completion Dates:** 1. Completed 2. April 30, 2017 3. April 30, 2017 4. May – June, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low 🟢 8. **Standardize Merit Pay Process for Classified Employees** Classified non-hospital employees are eligible to receive a merit increase if the performance rating is 3.0 or more; however, the amount of the increase can vary because departments have the discretion to award a merit increase ranging from 1% to 5%. In contrast, Classified Hospital employees are eligible to receive a merit increase; however, the award value is prescribed by a matrix. Departments are responsible for reviewing the merit increases granted to University employees to ensure consistency and equity across the department (e.g., employees with the same job and same rating receive relatively similar merit increases). The current non-hospital employee merit process is inconsistent with the existing hospital employee merit process. Further, the existing non-hospital employee merit process adds additional time and effort because it necessitates a review of merit increases for consistency and equity.	1. Evaluate existing performance plan, ratings and criteria for Classified non-hospital employees. 2. Develop merit matrix and instructional guidelines. 3. Consult with Information Resources to ensure matrix guideline is built into new merit tool.	**Management Action Plans:** Project plan developed in coordination with Project Reboot will include rating and merit matrix guidelines. Compensation team to develop recommendation for standardizing rating and merit matrix, include in existing instructions, standard rating and merit matrix and guidelines for ensuring consistency across the Institution. **Action Plan Owners:** Jim Ovens, Director of Compensation **Target Completion Dates:** January 31, 2019, dependent on timing of technology implementation related to Project Reboot

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Risk Rating: Low ● 9. **Refine Market Pricing Methodology** Compensation has access to 29 salary surveys. The current policy is to utilize a minimum of 2 and a maximum of 5 survey matches. Market matches are reviewed if there are swings in the market data greater than 10% year to year. A review of a sample of 25 market-priced jobs revealed: • Several data cuts from the same survey source were utilized. While this did not significantly impact the overall benchmark, a best practice is to select one cut per survey and to blend the survey data from multiple survey sources. The data should reflect the organization's size, location (local, regional, or national) and tax-exempt status. Variability in the data becomes more difficult to discern when multiple cuts from the same survey are utilized. • Regional cuts were utilized for executive level positions. Typically, regional cuts are not considered for executive level positions because talent for these positions would be recruited on a national level. • We noted variances greater than +/- 10% in the market median base salary data year over year (comparing 2015 to 2014 data) for six of the samples. Comments in Market Pay did not indicate whether any further review occurred and there was no evidence of modifications to the benchmark data.	1. Evaluate key benchmark jobs to determine if additional survey sources and market matches can be identified. 2. Refine market-pricing practice to identify data cuts most reflective of the organization's size and correlate to the position. 3. Document benchmarking methodology and include list of surveys in process documentation.	**Management Action Plans:** 1. Compensation team will evaluate available survey sources and determine those that are most relevant to the Institution. 2. Compensation team will review existing surveys and identify surveys that are most reflective of the Institution and serve as a comparable benchmark. 3. Based on analysis above, update existing documentation, including surveys to be utilized in the review. **Action Plan Owners:** Jim Ovens, Director of Compensation **Target Completion Dates:** 1. April 30, 2017 2. September 30, 2017 3. September 30, 2017

Detailed Observations and Action Plans Matrix

Observation	Recommendation	Management Response
Overall, UT Southwestern adhered to its pricing methodology of using 2 to 5 survey matches per position. Expanding the survey sources utilized will provide a more comprehensive picture of market competitiveness for all benchmark jobs. Potential risk of maintaining the status quo include under/over pricing benchmark positions which can adversely impact a departments bottom line (if jobs are overpriced and adjustments to salary are made based on benchmarking) or impact UT Southwestern's competitiveness (salaries aren't adjusted appropriately because the underlying benchmark is improperly scoped).		
Risk Rating: Low ● 10. **Consult the Compensation Department When Establishing the University Merit Increase Budget** Compensation is not consulted to provide market data on merit budgets at similarly situated institutions or in the healthcare industry as a whole. Leading practice is to review compensation surveys to determine the projected merit increase budgeted at similarly situated organizations.	Consult with Compensation to evaluate market data on merit budgets and projected merit increases at similarly situated organizations.	**Management Action Plans:** Compensation department to provide Senior Leadership with information and recommendation for annual merit increase based on review of compensation surveys. **Action Plan Owners:** Ivan Thompson, Vice President Human Resources Jim Ovens, Director Compensation **Target Completion Dates:** January 31, 2017

Appendix A – Risk Classifications and Definitions

As you review each observation within the Detailed Observations and Action Plans Matrix of this report, please note that we have included a color-coded depiction as to the perceived degree of risk represented by each of the observations identified during our review. The following chart is intended to provide information with respect to the applicable definitions and terms utilized as part of our risk ranking process:

Risk Definition - The degree of risk that exists based upon the identified deficiency combined with the subsequent priority of action to be undertaken by management.	Degree of Risk and Priority of Action	
	Priority	An issue identified by internal audit that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.
	High	A finding identified by internal audit that is considered to have a high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level. As such, immediate action is required by management in order to address the noted concern and reduce risks to the organization.
	Medium	A finding identified by internal audit that is considered to have a medium probability of adverse effects to the UT institution either as a whole or to a college/ school/ unit level. As such, action is needed by management in order to address the noted concern and reduce risk to a more desirable level.
	Low	A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/ school/unit level. As such, action should be taken by management to address the noted concern and reduce risks to the organization.

It is important to note that considerable professional judgment is required in determining the overall ratings presented on the subsequent pages of this report. Accordingly, others could evaluate the results differently and draw different conclusions.

It is also important to note that this report provides management with information about the condition of risks and internal controls at one point in time. Future changes in environmental factors and actions by personnel may significantly and adversely impact these risks and controls in ways that this report did not and cannot anticipate.

Appendix B – Compensation Department Assignments

There are six Compensation professionals: one Director, four Consultants and one Analyst. The chart below shows the number of employees supported by each Consultant (note: the Analyst was recently hired and is currently not assigned departments/employees):

Consultant	Classified	Faculty	A&P	Other*	Total**
Senior Compensation Consultant A	2,631	1,042	68	594	4,335
Senior Compensation Consultant B	4,726	171	139	25	5,061
Compensation Consultant A	2,318	861	159	507	3,845
Compensation Consultant B	1,716	631	136	381	2,864
Compensation Analyst	N/A	N/A	N/A	N/A	0
Total	11,391	2,705	502	1,507	16,105**

Includes an unpaid employee (1), Researchers (789), Students (658) and UT Southwestern Temps (59)
** Data as of 10/27/16

Appendix C – Compensation Systems and Tools Inventory

The chart below includes an inventory of current compensation systems and tools used to administer compensation at UT Southwestern.

System / Tool	Description	End User(s)
Merit Tool (iAim)	Homegrown web-based tool utilized by Compensation and departments in the annual merit process for Classified employees.	Compensation / Departments
Hyperion	Budget software utilized by departments, the Budget Office, the Dean's Office and the Provost Finance Office to manage compensation expenditures.	Budget Office / Departments
Dean's Administrative Database	Homegrown tool utilized by the Dean's Office to house academic and compensation data, as well as to generate reports and reappointment letters.	Dean's Office / Provost Finance Office
Market Pay	Cloud-based market pricing tool utilized by Compensation to store salary survey data and benchmark jobs.	Compensation

Appendix D – Risks and Impact Heat Map

The distribution of findings identified during the audit as they relate to risk and institutional impact are shown below.
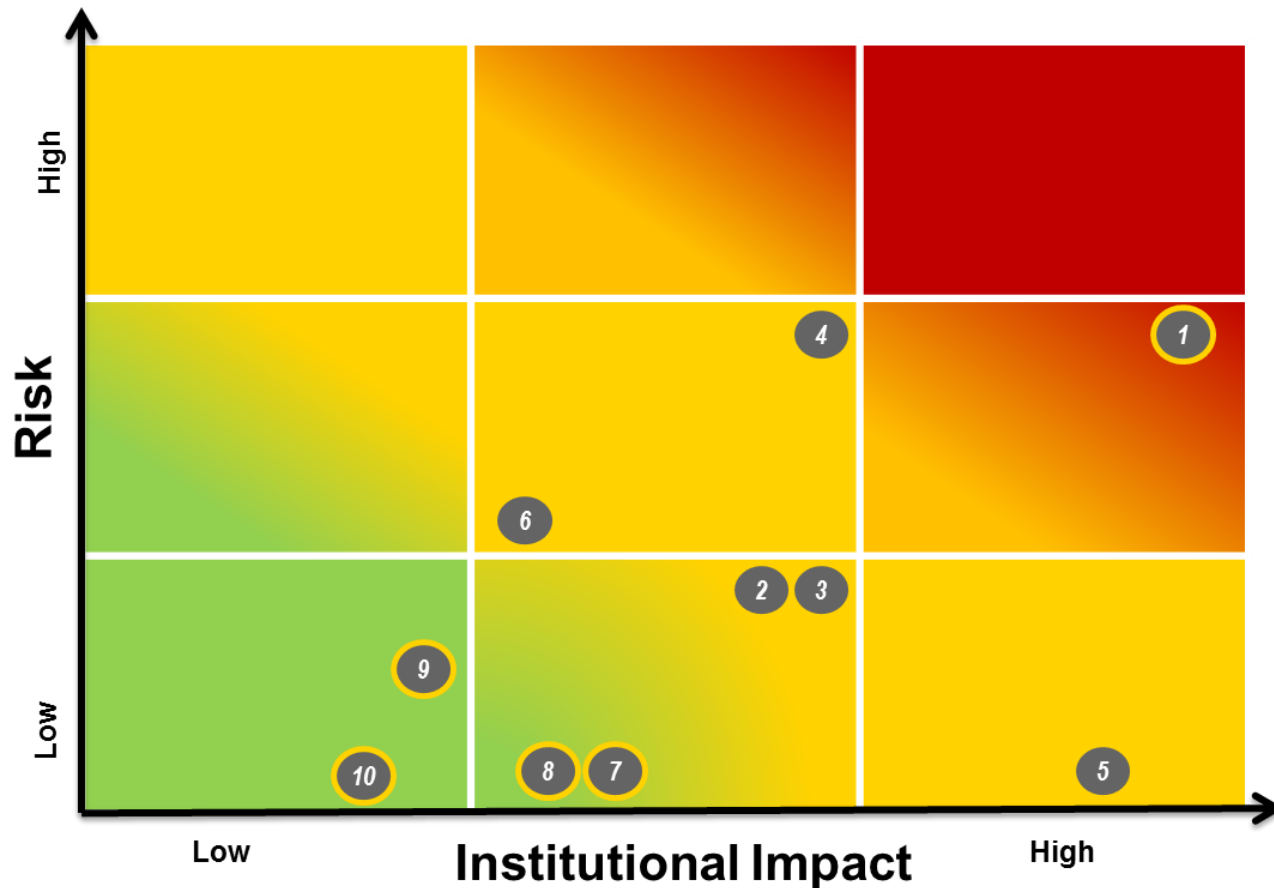
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1	**Restrict HCM System Access to Direct Changes to Compensation Data**
2	**Consolidate Compensation Administration Process for A&P and Classified Employees**
3	**Standardize and Automate Annual Salary Review Process for A&P Employees**
4	**Evaluate Alternative Human Resource and Compensation Administration Tools**
5	**Evaluate Current Compensation Department Staffing**
6	**Publish Classified Pay Plan to Ensure Compliance with UT System's Policy for University Classified Pay Plans**
7	**Update and Refine Existing Salary Ranges/Structures**
8	**Standardize Merit Pay Process for Classified Hospital and University Employees**
9	**Refine Market Pricing Methodology**
10	**Consult the Compensation Department When Establishing the University Merit Increase Budget**

Appendix E – Compensation Interactions

Degree of interaction

● High   ● Medium   ● Low   ★ Potential risk

Appendix F – Maturity Model

Basic	Developing	Established	Advanced	Leading
• Organization lacks a compensation philosophy. • Processes and procedures do not exist (e.g. no salary structures, no compensation administration guidelines – merit, promotions, hiring, performance evaluations, etc.) . • Compensation is administered using a paper based system. • Compensation may be administered by an HR Generalist. • Limited number of jobs are benchmarked on an ad hoc basis . • No participation in salary surveys. • Lack of HR systems.	• Organization has an informal compensation philosophy. • Processes and procedures exist, but are not documented . • Compensation is administered using MS Office products. • Compensation may be administered by a Compensation Analyst. • More jobs are benchmarked on a regular basis. • Limited survey participation. • Basic HR system(s) exists and are used regularly.	• Organization has a formal documented compensation philosophy that is communicated to key stakeholders. • Processes and procedures exist and are documented. • Compensation is administered using MS Office products and home grown tools. • Compensation is administered by an experienced Compensation Department. • Benchmarking of a majority of jobs is done on an annual basis. • Participates in multiple salary surveys. • Established HR systems exist and are used regularly.	• Organization has a formal documented compensation philosophy that is communicated to all employees. • Processes and procedures are documented and consistently applied. • Compensation is managed using compensation administration software and tools. • Compensation is administered by a Compensation Department where one or more professionals hold professional certifications (CCP, PHR etc.) • Benchmarking of a majority of jobs is done on an annual basis. • Participates in multiple salary surveys including industry specific surveys. • HR and compensation systems are integrated and used routinely.	• Organization has a formal documented compensation philosophy that is communicated and understood by employees. • Processes and procedures are documented and consistently applied and understood by key stakeholders. • Compensation is administered using fully integrated compensation systems. • Compensation is governed and administered by a Compensation Department comprised of certified professionals. • Benchmarking of a majority of jobs is done on an annual basis. • Participates in multiple salary surveys including industry specific surveys. • HR and compensation systems are integrated and used routinely.

Automated, integrated and structured compensation administration results in the following:

► Increased focus on organizational goals

► Streamlined data management

► Increased efficiency

► Improved budget control

► Improved accuracy

► Increased retention and engagement key stakeholders

► Better data and decisions

Established

Current-state assessment:
- Organization has a formal documented compensation philosophy that is communicated to Department administrators.
- Processes and procedures exist and are documented.
- Compensation is administered using homegrown tools (e.g., Merit Tool and DAD) as well as MS Office Products.
- Compensation for each group of employees (Classified, A&P and Faculty) is administered separately by different departments; however, the processes are defined and consistently applied within each group.
- Benchmarking is done annually for Classified (university/hospital) employees and UT Southwestern participates in approximately 29 salary surveys.
- An established HR System does exist; however, it is not fully integrated with the homegrown tools utilized in administering compensation.