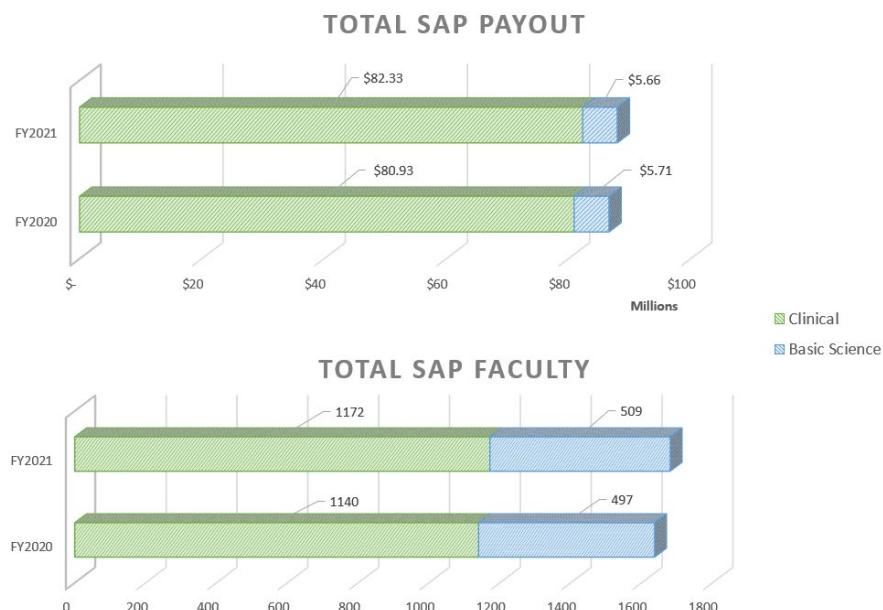


22-111 Physicians Referral Service – Supplemental Annual Program¹

EXECUTIVE SUMMARY

The Supplemental Annual Program (SAP) is an annual benefit program provided by Physicians Referral Service (PRS) to eligible faculty members at fiscal year-end. The percentage that each member receives is determined by benefits eligibility classification: Basic Science (18.5%) and Clinical (30%).

The objective of our review was to ensure that the Supplemental Annual Program is in compliance with institutional policy and related guidelines. In FY2021, the SAP payout was \$87.9 million, distributed to 1,681 eligible faculty members. In FY2020, \$86.6 million was distributed to 1,637.



PRS has established a quality control process to validate SAP eligibility and the accuracy of SAP calculations bi-annually. This process appears to be working as intended. Additionally, PRS determined that the benefits eligibility classification for three faculty in FY2021 needed to be reclassified from clinical benefits to basic science benefits based on eligibility requirements. One faculty member was ineligible to receive SAP during FY2020 and FY2021 due to not being in compliance with the PRS Agreement per the PRS Bylaws. PRS also provided historical cases over the last 10 years where other faculty members' benefit eligibility classifications have been reclassified.

Generally, the Faculty Compensation Program policy is outdated and appears to contain conflicting language as it relates to the portion of total compensation can be reduced. Our review identified the following opportunities for improvement:

- Update and comply with institutional policy and guidelines related to SAP.
- Document and consistently apply SAP eligibility & classification criteria.
- Ensure SAP reductions comply with policy.

¹ The Supplemental Annual Program, as noted in the most current (FY21 and FY22) versions of the PRS Faculty Benefit Packets, is also referred to as the Supplemental Annuity Program in institutional policy (ACA0044).

- Provide timely communication and ensure appropriate approval of changes to SAP eligibility & classification criteria to faculty.
- Ensure data query accuracy.

Further details are outlined in the *Detailed Observations* section. Other less significant opportunities for improvement were communicated to management separately.

Management Summary Response:

Management agrees with the observations and recommendations and has developed action plans to be implemented on or before December 31, 2022.

Appendix A outlines the methodology for this project.

The courtesy and cooperation extended by the personnel in the Physicians Referral Service, the CSO's Office, and HR Faculty and Academic Partnerships are sincerely appreciated.

Sherri Magnus
Sherri Magnus, CPA, CIA, CFE, CRMA, CHIAP
Vice President & Chief Audit Officer
June 2, 2022

DETAILED OBSERVATIONS**Observation 1:****Update and Comply with Institutional Policy and Guidelines
Related to SAP****RANKING: MEDIUM**

The Supplemental Annual Program (SAP) is referenced in the Faculty Compensation Program Policy (ACA0044). The policy was last updated March 2015 and is outdated as a result of institutional reorganizations. Specifically:

1. The responsibility and accountability for decisions related to SAP benefits eligibility appears to have changed which are not reflected in the policy. In the current policy, all responsibility and accountability for oversight and communication of SAP reductions rest with the Chief Academic Officer (CAO). However, these duties have been transitioned to other leaders.
2. The 40% salary on grants requirement for research faculty is not currently being evaluated in relation to SAP. As a result, the payouts for research faculty may not comply with policy. **See Observation 3.**
3. The Faculty Salary Equity Review Committee is not made aware and is not part of the review process for all SAP reductions, as required by policy. **See Observation 4.**

Additionally, the policy appears to contain conflicting language as it relates to the portion of total compensation can be reduced. Unclear guidelines may lead to incorrect SAP classification determinations and inaccurate SAP payout amounts based on benefit eligibility classification. Ensuring that policies and guidelines reflect current practices will mitigate these instances from occurring.

Recommendation:

Management should update and comply with the Faculty Compensation Program Policy and guidelines as it relates to SAP.

Management's Action Plan 1.1:

Executive Leadership Team Member: Yolan Campbell/Shibu Varghese/Welela Tereffe

Owner: Julie Izzo

Implementation Date: December 31, 2022

HR Faculty and Academic Partnerships will (1) revise ACA0044 policy – Faculty Compensation Program Policy as it relates to SAP thresholds, (2) steward the approval flow and publishing of the policy.

Management's Action Plan 1.2:

Executive Leadership Team Member: Welela Tereffe

Owner: Karen Kennedy

Implementation Date: December 31, 2022

PRS will recommend revisions to the revised ACA0044 policy – Faculty Compensation Program Policy from HR Faculty and Academic Partnerships as it relates to SAP benefit eligibility classifications, and any process flow or approval process recommendations as appropriate.

Management's Action Plan 1.3:

Executive Leadership Team Member: Giulio Draetta

Owner: Tania Secrest

Implementation Date: December 31, 2022

The CSO Office will coordinate with PRS and HR Faculty and Academic Partnerships to review all policies related to salary on grants and will make updates as appropriate to ensure consistency and clarification regarding ownership.

Observation 2:**Document and Consistently Apply SAP Eligibility & Classification Criteria****RANKING: MEDIUM**

The classification criteria for SAP payout is not clearly nor consistently documented, and clinical classification criteria is not explicitly communicated to faculty members. Specifically:

- The eligibility criteria for SAP is not consistent between MD Anderson Institutional Policy ACA0044 and the PRS Faculty Benefit Packets. The policy states that faculty must hold specific faculty titles to be eligible for SAP. However, the Benefit Packets provide additional eligibility criteria, requiring faculty to be employed either at least 75% time for Basic Science, and at least 51% time for Clinical.
- Most clinical faculty are required to achieve a minimum 5% clinical billing activity to receive the full 30% SAP payout. While this seems like a reasonable expectation, clinical faculty are not informed in writing of the consequences of failure to maintain such activity prior to the beginning of the fiscal year. Clinical faculty are, however, informed mid-year if they are not in compliance with this requirement, allowing them an opportunity to modify their performance as appropriate.
- Certain clinical faculty are not required to achieve certain clinical billing activity requirements due to the nature of their employment such as faculty involved in the Tobacco program and Employee Health. In addition, certain faculty administrative titles can also have a potential interim classification. However, this is not documented.

Three clinical faculty members did not meet the 5% clinical billing activity for FY2021. They were informed in January 2021 that they were at risk of reclassification to Basic Science benefits, which would result in a lower SAP payout. It is critical to ensure classification criteria are clearly documented and communicated prior to each fiscal year to provide transparency in the benefits process.

Recommendation:

Management should clearly document eligibility and classification for SAP, communicate the criteria prior to each fiscal year, and consistently apply documented eligibility and classification requirements.

Management's Action Plan 2.1:

Executive Leadership Team Member: Welela Tereffe

Owner: Karen Kennedy

Implementation Date: August 31, 2022

PRS will include additional language in the annual PRS Agreement for benefit eligibility classification requirements and clinical billing activity thresholds that members of the Practice Plan (clinical faculty) would initial and acknowledge on an annual basis.

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Management's Action Plan 2.2:

Executive Leadership Team Member: Yolan Campbell/Shibu Varghese/ Welela Tereffe

Owner: Julie Izzo

Implementation Date: August 31, 2022

HR Faculty and Academic Partnerships will review with PRS the eligibility and exclusion criteria and ensure consistency between policies, PRS packet benefits and practice. In addition, we will develop validation processes between HR Faculty and Academic Partnerships and PRS to validate the annual eligibility assessments.

Observation 3:**Ensure SAP Reductions Comply with Policy****RANKING: MEDIUM**

While clinical faculty may be reclassified for not meeting minimum productivity standards, a process has not been implemented to reduce research faculty SAP according to policy. The policy specifically states that failure of research faculty to maintain 40% salary on grants over a period of time will lead to a reduction in the cash component of SAP. The analysis performed by the Chief Scientific Officer to determine if faculty are maintaining 40% salary on grants is not used to determine the SAP payout, as required by policy. As a result, the payouts for research faculty may not comply with policy. We do not have sufficient information to determine how many faculty members may be impacted.

Recommendation:

Management should ensure that reductions to SAP are consistently applied according to policy.

Management's Action Plan 3.1:

Executive Leadership Team Member: Welela Tereffe

Owner: Karen Kennedy

Implementation Date: December 31, 2022

PRS will establish a process with the SVP/CSO's office on a bi-annual basis to be notified of those research faculty that are not in compliance with the Salary Support on Research Grants Policy.

Management's Action Plan 3.2:

Executive Leadership Team Member: Giulio Draetta

Owner: Tania Secrest

Implementation Date: December 31, 2022

The CSO Office will provide salary on grants compliance reports to PRS and HR Faculty and Academic Partnerships teams for SAP review and action.

Observation 4:

Provide Timely Communication and Ensure Appropriate Approval of Changes to SAP Eligibility & Classification Criteria to Faculty

RANKING: MEDIUM

PRS determined three faculty members were at risk of SAP benefit reclassification during FY2021. They were officially notified of the risk of reclassification seven months prior to the SAP payout. While institutional policy does not explicitly require or define timely communication for SAP reductions, a one year standard is referenced in other sections of the Faculty Compensation Program policy. Our core value of caring could be at risk if timely communication is not provided to faculty in advance of actions that might result in significant reductions in total compensation.

Additionally, according to policy, the notice of a reduction in total compensation should only be made by the CAO/SVP and will be reviewed by the Faculty Salary Equity Review Committee prior to implementation. However, this process did not appear to be followed in these instances.

Recommendation:

Timely communication should be provided to faculty whose SAP payment is reduced. Consideration should also be given to including a timeliness standard in the policy when it is revised. In addition, management should ensure appropriate approval by the Faculty Salary Equity Review Committee of all SAP reclassifications that result in a reduction in total compensation in accordance with policy.

Management's Action Plan 4.1:

Executive Leadership Team Member: Welela Tereffe

Owner: Karen Kennedy

Implementation Date: December 31, 2022

PRS will provide written communication to the faculty member within a reasonable time period that they are not in compliance with the 5% clinical billing activity threshold. And, therefore are at risk for reclassification and consistent with our core value of Caring. Faculty will be able to continue to provide a justification or explanation for their current status and provide remedies for reclassification. This continues to be an annual process which inherently allows faculty to determine their benefits classification for that fiscal year. SAP reclassifications will be communicated through the faculty compensation governance structure.

Management's Action Plan 4.2:

Executive Leadership Team Member: Yolan Campbell/Shibu Varghese/ Welela Tereffe

Owner: Julie Izzo

Implementation Date: December 31, 2022

HR Faculty and Academic Partnership will revise ACA0044 policy – Faculty Compensation Program Policy to ensure that a clear process for review and approval of any SAP threshold for reduction is described in the policy. In addition, the office will be responsible to ensure that such process is in place and followed.

Observation 5:
Ensure Data Query Accuracy

RANKING: MEDIUM

PRS utilizes various queries to generate reports for determining faculty eligibility, gathering information, preparing internal reports, and more. Some standard queries that are still in use were created several years ago and may no longer be working as intended as a result of Peoplesoft upgrades.

During the audit, we identified that one of the queries was not working as intended. As a result, five faculty members who had received SAP payouts were excluded from an FY21 Total SAP Payout report. Management informed us that the query was only used on an "ad hoc" basis, and not for formal reporting. However, we did not validate other queries or reports to determine if they included any inaccuracies. Our testing did not reveal any eligibility or calculation errors as it relates to SAP payments.

Recommendation:

Management should implement processes to validate the accuracy of all queries and reports prior to placing them in production. In addition, all current queries and reports should be reviewed to validate the accuracy of the outputs.

Management's Action Plan:

Executive Leadership Team Member: Yolan Campbell/Shibu Varghese

Owner: Edwin Godfrey

Implementation Date: August 31, 2022

All Peoplesoft queries and reports will be reviewed bi-annually to ensure that the correct and accurate data fields are being included in the query in accordance with any recent Peoplesoft updates and documented.

Appendix A

Objective, Scope and Methodology:

Internal Audit conducted a review of Physicians Referral Service (PRS) as required by UTS 155. The objective was to ensure that the Supplemental Annual Program (SAP) is in compliance with the institutional policy and related guidelines. The review scope was fiscal year 2021 and any related periods. SAP payment data for fiscal year 2020 was included for reference purposes only.

Our methodology included, but was not limited to, the following procedures:

- Reviewed relevant organizational policies and procedures.
- Reviewed applicable PRS Faculty Benefit Packets.
- Interviewed key personnel responsible who oversee and monitor the SAP calculation, eligibility determinations, and those who were involved in SAP reduction or reclassification decision-making, including Legal Services.
- Interviewed key personnel in HR and within the offices of the Chief Academic Officer and Chief Scientific Officer.
- Reviewed institutional memorandums related to SAP reductions and reclassifications, institutional reprimand, and job-role changes.
- Compared queries of different reports for consistency.
- Verified clinical billing levels of faculty who were at risk for SAP reclassification.
- Recalculated a sample of various faculty members SAP payouts.

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

The internal audit function at MD Anderson Cancer Center is independent per the *Generally Accepted Government Auditing Standards* (GAGAS) requirements for internal auditors.

Number of Priority Findings to be monitored by UT System: None

A Priority Finding is defined as “*an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.*”

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