

June 13, 2011

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Assistant Vice Chancellor of Administration
UCSD School of Medicine
0602

Subject: *Health Sciences Compensation Plan Management
Academic Program Units
AMAS Audit Project 2011-21*

Audit & Management Advisory Services (AMAS) has completed a review of Health Sciences Compensation Plan management, with a focus on the assignment and management of Academic Program Units (APU). This report summarizes the results of our review.

Background

The University California Health Sciences Compensation Plan (HSCP) was implemented to provide a common administrative framework within which a participating Health Sciences Professional School can compensate its faculty according to the competitive requirements of each discipline.¹ Health Sciences faculty members that hold a University funded appointment of greater than 50% are mandatory HSCP participants. Faculty members with an appointment of 50% or less may be allowed to participate upon the recommendation of the Department Chair and the approval of the Vice Chancellor Health Services (VCHS).

UC Office of the President (UCOP) issued general guidelines for APU formation on November 23, 1999 in Academic Personnel Manual (APM) 670. Faculty members with similar administrative, teaching, clinical, or research responsibilities are assigned to an APU by their home department. Per UCOP guidelines, APUs cannot be created solely or primarily based on funding or earning levels, but must also include consideration of professional. When a new APU is created, it is assigned an APU salary scale, and an APU Profile is prepared. The APU Profile includes a five year salary scale projection. The same APU salary scale is typically assigned to all five years included in the projection. Faculty members of each APU group shared the same group APU salary scale.

The APU Profile Form (*Attachment A*) is used to approve the creation or modification of an APU, and document key aspects of an APU unit. Data contained in this Form represents the authority for covered compensation used to compute physician benefits, including retirement payments. Data required on this Form includes:

¹ University of California Academic Personnel Manual Section 670: *Health Sciences Compensation Plan and Guidelines on Occasional Outside Professional Activities by Health Sciences Compensation Plan Participants*; November 23, 1999.

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- Department
- APU Name
- APU Code
- Description, including criteria, of the APU
- APU salary scale for the initial, and four subsequent fiscal periods
- APU faculty member names, rank, step, covered compensation
- Approvals of the Department Business Officer, Department Chair, and Vice Chancellor, Health Sciences (VCHS)

The VCHS APU Guidelines require that the APU Profile Form be updated every five years.

HSCP faculty members are eligible for base and incremental salary increases associated with their academic rank, step, and APU. Three salary components comprise “covered compensation” which is considered for retirement benefits, including X, X’ (X Prime), and Y’ (Y Prime). These salary components are defined as follows:

- X = Base salary (Scale 0). State generated funds (19900A) may be used to pay X
- X’ = Amount of salary above X applicable to Scales 1 through 3. State generated funds may not be used to pay X’
- Y’ = Additional compensation above Scale 3 (e.g. Scales 4 through 9). State generated funds may not be used to pay Y’

The APU salary scale assignment has a significant impact on benefits calculations. A faculty member at an APU salary scale of 9 is allowed total covered compensation that is 225% of the covered compensation for a faculty member with the same rank and step, at an APU salary scale of 0. The Health Sciences Faculty Salary Scales matrix (HSFS Matrix), last updated on October 1, 2007 includes the salary for each rank, step, and APU salary scale. The following table shows the effect of each APU salary scale for an assumed base salary of \$100,000 for a faculty member with a constant rank and step.

<u>APU Salary Scale</u>	<u>Factor</u>	<u>Covered Compensation</u>
0	1.00	\$100,000
1	1.10	\$110,000
2	1.20	\$120,000
3	1.30	\$130,000
4	1.40	\$140,000
5	1.50	\$150,000
6	1.65	\$165,000
7	1.80	\$180,000
8	2.00	\$200,000
9	2.25	\$225,000

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As of October 2010, there were 1,266 School of Medicine (SOM) and Skaggs School of Pharmacy and Pharmaceutical Sciences (SSPPS) faculty members assigned to the 99 existing APUs. Many APUs were assigned an APU salary scale of 3, which included approximately 40% of the faculty. APU salary scale 8 was assigned least frequently, affecting less than 1% of the faculty. The following table summarizes the APU salary scale distribution for the 1,266 faculty members included in the HSCP.

APU Scale	# of Faculty	% of Faculty
0	176	13.9%
1	73	5.8%
2	93	7.3%
3	513	40.6%
4	21	1.7%
5	158	12.5%
6	70	5.5%
7	98	7.7%
8	8	0.6%
9	56	4.4%
Total	1,266	100.0%

To allow time for additional clarification concerning the effect of APUs, the VCHS issued a letter dated November 9, 2007 stating that, effective with the Fiscal Year starting July 1, 2007, new APUs would not be approved until further notice. As of March 31, 2011, the suspension was still in effect. VCHS management plans to re-evaluate the need for the APU suspension on a periodic basis.

Audit Objective, Scope and Procedures

This objective of our review was to evaluate the process of assigning APUs to departments and/or divisions within the SOM, and the SSPPS, with a focus on determining whether current practices complied with UC and VCHS guidance.

We performed the following audit procedures to achieve the project objective:

- Reviewed various documents containing guidelines, policies, and procedures regulating the creation of APUs, and the activity subsequent to their creation;
- Interviewed key individuals responsible for the creation, processing, and monitoring of APU activity;
- Examined related data included in standard reports, databases and systems including the APU Profile Report, the HSFS Matrix, the SOM SalPro budget tool² (SalPro), and the University Payroll and Personnel system (PPS) (***Attachment B***);
- Evaluated APU management and audit process controls; and,

² SalPro is a salary budgeting tool developed by VCHS administration for use by SOM and SSPPS Business Offices to prepare annual budgets for faculty salaries. SalPro does not interface with the UC PPS system to update faculty salaries.

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- Performed analysis of a judgmental sample of APUs to verify adherence to the appropriate guidelines, policies, and procedures.

Conclusion

Based on our review procedures, we concluded that in general, the APU assignments, modifications and monitoring processes were functioning effectively, and in accordance with the UCOP general guidelines. However, we noted several areas where processes could be improved, including APU authorizations, the method and criteria for assigning an APU Salary Scale, and the reconciliation of covered compensation recorded on the APU Profile, the HSFS Matrix, and in the PPS system.

Opportunities to further improve the process are discussed in more detail in the remainder of this report.

Observations and Management Corrective Actions

A. Local Guidelines for APU Creation and Management

Local guidelines for APU assignment, modification, and monitoring were not formalized. Documentation was not on file to identify the criteria used to assign APU salary scales.

We noted that because UCSD supplemental APU guidance had not been developed, in some cases, departments had dissimilar criteria for establishing and reviewing/updating APU assignments and salary scales. In addition, documentation describing the criteria used to assign APU scales was not retained by the departments. In one instance, an APU Profile Form authorizing the creation of the APU, including the assigned salary scale of 9, was not on file.

Department management described several consistent factors that were considered when assigning the salary scale to newly created APUs. For example, each department interviewed stated that the ability of an APU to financially support the salary scale assigned to its members was one factor considered in the assignment of the salary scale. However, the other criteria used by department management to assign APU salary scales were not consistent. In addition, in some cases, existing APU salary scales were not periodically monitored to determine whether a change should be considered. Increased collaboration between the Dean's Office and Department Administrators when new APUs are created, and when the five year APU resubmissions are prepared, would help to ensure that consistency and transparency have been achieved.

Faculty members within an APU could realize additional retirement benefits if professional responsibilities and financial performance were to warrant assignment of the group to a higher APU salary scale. On the other hand, departments have a responsibility to ensure that

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groups are assigned to an APU scale that they can financially support to ensure that the salary and benefits paid can be covered without utilizing Department funds. It is important to reach a balance that protects the interests of both faculty members and departments. The overall goal should be to ensure that the process for assigning APU salary scales is transparent to group members, and applied consistently. Development of UCSD guidelines to supplement UCOP procedures provided by UCOP should help to achieve that goal.

Management Corrective Actions:

Health Sciences management will:

1. Clarify and document guidelines for APU scale assignment, monitoring and modification.
2. Require that departments maintain documentation to support existing and future APU salary scales, and/or modifications.

B. Authorization to Approve APUs

The authority to approve a new APU or a modification to an existing APU had not been formally re-delegated.

The creation of an APU is documented and approved on the APU Profile Form (*Attachment A*). This Form provides a description of the Department, APU Name, APU Code, criteria used, APU Scale, and faculty members included. The Form requires the approvals of the Chief Accounting Officer/Department Business Officer, the Department Chair, and the Health Sciences Vice Chancellor/Dean.

AMAS reviewed a judgmental sample of 29 of 99 completed APU Profile Forms and noted the following exceptions:

- In 28 instances, VCHS approval was granted by the Health Sciences Assistant Vice Chancellor of Administration or the Health Sciences Assistant Dean of Administration. A delegation of authority approved by the Vice Chancellor was not on file.
- Nine APUs that were not associated with new Department functions were approved after the letter dated November 9, 2007 that suspended the creation of new APUs.
- In 7 instances, APUs containing fewer than five members were created, which was not consistent with APM 670 guidelines.

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Management Corrective Action:

The Assistant Vice Chancellor, Health Sciences Business and Fiscal Affairs will formally request delegated authority related to APUs from the VCHS to the Assistant Vice Chancellor of Health Sciences and Fiscal Affairs and Associate Dean of Business and Fiscal Affairs.

C. Supporting Documentation Inconsistencies

Inconsistencies were noted among various documents related to APUs.

A completed APU Profile Form provides the data and authorization necessary to create an APU. Data contained in this document is the source for the covered compensation data entered into the PPS system. Consistency of data on the APU Profile Form and in PPS, and to a lesser extent SalPro, provides assurance that benefits will be accurately calculated.

A judgmental sample of 20 of 99 APU Profile Forms was selected for focused review. The 20 APUs included in the test sample were associated with 65 individual faculty members. Each faculty member's data included on the APU Profile Form was compared with compensation data in the HSFS Matrix, SalPro and PPS. *Attachment B* provides the details for the exceptions noted during audit testing, which are summarized as follows:

- The covered compensation per the APU Profile, SalPro, and PPS were incorrect in 11 cases;
- The covered compensation per the APU Profile and PPS were incorrect in two cases;
- The covered compensation per the APU Profile and SalPro were incorrect in one case; and,
- The covered compensation per the APU Profile was incorrect in four cases.

A monthly audit of APU data was being completed. However, the audit procedures did not include a reconciliation of the covered compensation documented on the APU Profile Form with supporting data including the HSFS Matrix, SalPro, and PPS.

Data inconsistencies could result in the inaccurate calculation of faculty retirement benefits. Expanding the scope of the monthly APU audit could identify inconsistencies and ensure that they would be corrected on a timely basis.

Management Corrective Actions

1. The VCHS Director of Faculty Compensation has corrected the data inconsistencies identified in *Attachment B*. Covered Compensation for faculty members per APU Profiles is now consistent with Covered Compensation per SalPro and PPS.

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2. The Health Sciences Business Applications Development Group is in the process of developing an audit tool that will link the various database systems to ensure data accuracy. In the interim, a complete audit will be conducted of the remaining APU Profile forms as part of the annual budget process. A monthly reconciliation of the APU profile forms with PPS data will be completed across a sampling of faculty in the Health Sciences departments.

Audit & Management Advisory Services appreciates the cooperation and assistance provided during the review. Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the corrective actions. At that time, we may need to perform additional audit procedures to validate that actions have been taken prior to closing the audit findings.

UC policy requires that all draft audit reports (copied on tan paper for ease of identification) be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them at this time.

If you have any questions regarding this report, please call me at 534-3617.

Stephanie Burke
Assistant Vice Chancellor
Audit & Management Advisory Services

cc: D. Brenner
L. Donaldson
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Audit Management Advisory Services
Physician Compensation Plan Management - Academic Program Units, Project #2011-21
ACADEMIC PROGRAM UNIT PROFILE TEMPLATE

DEPARTMENT: _____

Attachment A

APU NAME: _____

APU CODE: _____

DATE SUBMITTED: _____

Description of APU: Please include criteria used.

PROPOSED HEALTH SCIENCES SALARY SCALE:

(Using Scale pay numbers: 1 thru 9. Insert Scale pay number assigned to APU for each of 5 future years.)

07/01/11 _____ 07/01/12 _____ 07/01/13 _____

07/01/14 _____ 07/01/15 _____

APU Membership:

(Use established Scale Pay rates as of July 1. **DO NOT USE blended FY pay rates.** Attach another sheet if necessary.)

<u>Name</u>	<u>Rank/Step</u>	<u>[X +X'+Y'] Scale Salary</u>	<u>Y Salary</u>	<u>Proj Z</u>
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APPROVALS:

CAO/DBO _____	Date _____
Department Chair _____	Date _____
VCHS/Dean _____	Date _____
Other _____	Date _____

This form is routed to the Dean's Office, MC: 0742 prior to submission to the Dean.

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Reconciliation of Covered Compensation

Name, Rank, Step	APU Profile Effective Date	APU Scale	Covered Compensation per APU Profile	Covered Compensation per the Health Sciences Faculty Salary Scales Matrix (A)	Covered Compensation in the SOM Salpro Budget Tool	Covered Compensation in the Payroll Personnel System (PPS)	Notes
Blue = Correct covered compensation							
Green shaded = Correction required							
<u>Ortho Vice Chairs, etc. ORT004</u>							
Associate Clinical Professor I	7/1/2008	6	\$114,200	\$126,600	\$132,700	\$144,400	(1,2)
<u>Pediatrics PHD Faculty PEDPHD</u>							
Assistant Professor IV	7/1/2010	1	\$84,400	\$80,300	\$84,400	\$84,000	(1)
<u>Ped Pharm & Drug Disc PEDPPR</u>							
Associate Professor II	7/1/2010	3	\$96,500	\$104,500	\$96,500	\$96,500	(1)
Professor IV	7/1/2010	3	\$167,700	\$145,300	\$167,700	\$167,700	(1)
<u>Ped Neonatology PEDNEO</u>							
Professor VIII	7/1/2010	9	\$407,800	\$342,000	\$342,000	\$342,000	(3)
Associate Professor II	7/1/2010	9	\$104,500	\$180,900	\$104,500	\$180,900	(4)
Assistant Professor II	7/1/2010	9	\$85,000	\$147,200	\$85,000	\$85,000	(1)
<u>Ped Gastro PEDGAS</u>							
Assistant Professor III	7/1/2010	7	\$122,400	\$124,200	\$122,400	\$122,400	(1)
<u>Ped Allergy, Imm. Rheum (PEDALL)</u>							
Professor VI	7/1/2010	3	\$155,000	\$168,600	\$155,000	\$155,000	(1)
<u>Ped Dermatology PEDDER (new)</u>							
Professor V	7/1/2010	7	\$187,700	\$215,600	\$187,700	\$187,700	(1)
<u>Ped Emergency Med PEDEME</u>							
Associate Professor II	7/1/2010	5	\$115,100	\$120,600	\$115,100	\$115,100	(5)
Assistant Professor I	7/1/2010	5	\$80,200	\$92,600	\$92,600	\$80,200	(1)
Assistant Professor III	7/1/2010	5	\$89,700	\$103,500	\$89,700	\$89,700	(1)
Assistant Professor II	7/1/2010	5	\$85,000	\$98,100	\$85,000	\$85,000	(1)
Associate Professor II	7/1/2010	5	\$127,400	\$120,600	\$127,400	\$127,400	(6)
Assistant Professor III	7/1/2010	5	\$152,028	\$103,500	\$103,500	\$152,028	(1)
Assistant Professor III	7/1/2010	5	\$153,043	\$103,500	\$103,500	\$103,500	(3)
Assistant Professor IV	7/1/2010	5	\$94,900	\$109,500	\$94,900	\$94,900	(1)
<u>Ped Nephrology PEDNEP</u>							
Professor II	7/1/2010	3	\$117,300	\$126,400	\$117,300	\$117,300	(1)
<p>(A) Covered Compensation equals the sum of X + X' + Y' and excludes Y and Z pay. These are the salary components provide the basis for benefits calculations.</p> <p>(1) Covered compensation per the HS Faculty Salary Scales does not agree with the covered compensation per PPS. Incorrect PPS amounts could impact retirement benefits calculations.</p> <p>(2) The correct compensation is \$140,100 due to a promotion effective 7/1/2010.</p> <p>(3) Covered compensation is incorrect on the APU Profile only, but PPS is accurate.</p> <p>(4) Covered compensation is incorrect on the APU Profile and in Salpro, but PPS is accurate.</p> <p>(5) The APU Profile listed this faculty member as an Associate Professor II, and Associate Professor I is correct.</p> <p>(6) The APU Profile listed this faculty member as an Associate Professor II, and Associate Professor III is correct.</p>							