

The logo for UCIrvine, featuring the letters 'UCI' in a large, bold, serif font, followed by 'RVINE' in a smaller, all-caps, serif font. A vertical line separates the 'UCI' and 'RVINE' parts.

UCIRVINE

The text 'INTERNAL AUDIT SERVICES' in a serif font, stacked in two lines. A vertical line is to the left of the text.

INTERNAL  
AUDIT SERVICES

Otolaryngology  
*Internal Audit Report No. I2022-202*  
September 28, 2022

***Prepared By***

Michael Shead, Senior Auditor

***Reviewed By***

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***Approved By***

Mike Bathke, Director

September 28, 2022

**TJOSON TJOA, M.D.**  
**INTERIM CHAIR**  
**DEPARTMENT OF OTOLARYNGOLOGY – HEAD AND NECK SURGERY**

**RE: Otolaryngology – Head and Neck Surgery Audit**  
**Report No. I2022-202**

Internal Audit Services has completed the audit of Otolaryngology – Head and Neck Surgery and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,



Mike Bathke  
Director

Attachment

C: Audit Committee  
Gilbert Solorzano, Chief Administrative Officer – Otolaryngology - Head and Neck  
Surgery

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## I. MANAGEMENT SUMMARY

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In accordance with the fiscal year (FY) 2021-22 audit plan, Internal Audit Services (IAS) performed an audit of the UC Irvine Otolaryngology – Head and Neck Surgery (Otolaryngology) department. Specifically, IAS reviewed certain aspects of Otolaryngology’s compliance with the current UC Irvine School of Medicine (SOM) clinical compensation plan, and the SOM Clinical Integration model. Audit work disclosed the following concern.

**Otolaryngology Compensation** – Clinical work performed at the SOM-owned Otolaryngology-managed freestanding clinic (known as the Irvine clinic) was exempted from the current SOM Clinical Integration model. In coordination with SOM, Otolaryngology obtained a specific “carve-out” (exemption) for the Irvine clinic, which allowed the department to retain net revenues earned by the Irvine clinic, minus taxation and fees. This provision exempted the Irvine clinic from the SOM Clinical Integration model of reimbursement that uses a dollar per work relative value units (wRVUs) method. Details are provided in Section V.1.

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## II. BACKGROUND

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Otolaryngology is composed of a group of physicians and scientists who are dedicated towards advancing the health of individuals with ear, nose, and throat conditions. They provide care for patients with common and complex diseases.

Otolaryngology performs certain procedures at the Irvine clinic that have substantial Medicare and Preferred Provider (PPO) insurance reimbursement. One set of elective procedures, the awake sinus surgical procedure, provides a relatively high contribution margin for insurance reimbursement relative to the cost of the supplies and instruments used. This creates a potential margin of profit per procedure performed.

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## III. PURPOSE, SCOPE, AND OBJECTIVES

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The purpose of the audit was to verify the adequacy of internal controls over certain Otolaryngology processes and practices involving compliance with the SOM clinical compensation plan and the current SOM Clinical Integration model.

The audit scope included Otolaryngology compensation administration in FY 2022 and prior fiscal years.

The audit included the following objectives.

1. Determine specific concerns surrounding Otolaryngology employee compensation from discussions with key administrators and faculty physicians.

2. Identify specific Otolaryngology employees whose annual compensation best exemplifies concerns noted by senior and mid-level UC Irvine/SOM administrators.
3. Determine whether the UC Irvine Medical Center Utilization Management department and/or the UC Irvine Corporate Compliance and Privacy Office have recently completed utilization reviews for Otolaryngology physicians. Determine the results of those reviews, as needed.
4. Compare annual salaries of certain UC Irvine Otolaryngology employees to Otolaryngology employees with similar roles and responsibilities at other UC medical campuses. Attempt to account for significant divergences in compensation among the employee groups.
5. Determine whether Otolaryngology compensation follows the current UC Irvine SOM clinical compensation plan, and the SOM Clinical Integration model. To the extent that Otolaryngology is non-compliant with the plan and/or model, determine the impact on compensation levels of Otolaryngology employees.

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#### **IV. CONCLUSION**

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Revenues generated at the SOM Irvine clinic, managed by Otolaryngology, were exempted from the current SOM Clinical Integration model. Certain faculty physicians that perform clinical work in the Irvine clinic have benefitted financially from the carve-out provisions.

Recent discussions with SOM senior leadership disclosed that plans are in place to eventually close the free-standing Irvine clinic.

The following observation was discussed with Otolaryngology management who formulated a management action plan to address the noted issues. These details are presented below.

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#### **V. OBSERVATIONS AND MANAGEMENT ACTION PLANS**

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##### **1. Physician Compensation**

###### **Background**

For many years, Otolaryngology has operated a SOM-owned, free-standing clinic. Otolaryngology obtained a carve-out for the Irvine clinic, which allowed them to retain all professional and facility fees within the Irvine clinic. The department obtained approval from SOM to operate a Medicare designated SOS-11 location which permits the site to retain both facility and professional fees. The retention

of the facility fee is to reimburse the location for facility expenses associated with the care provided to patients.

At the same time, an important change was made in Medicare reimbursement policy regarding the awake sinus surgical set of procedures. The change in Medicare policy incentivized physicians to perform this set of procedures in a medical office-based setting. Previously, Medicare only reimbursed for the procedures performed in an outpatient ambulatory surgery center.

### **Observation**

Otolaryngology began to perform balloon dilation procedures primarily at the Irvine clinic, where only patients insured by Medicare or by Preferred Provider (PPO) plans (i.e., plans with the highest reimbursement rates) were scheduled, and along with the change in Medicare reimbursement policy pertaining to balloon dilation procedures, the Irvine clinic's net revenue increased. Furthermore, Otolaryngology faculty physicians' compensation, especially those performing awake sinus surgical procedures, increased proportionally from increases in the Irvine clinic's net revenue.

In January 2019, the SOM Clinical Integration model was put in place. Under this model, the earned net revenue of SOM service lines would now be collected by SOM and recorded in an enterprise fund. Then, a portion of the net collections from all SOM service lines would be redistributed back to each service line by SOM based on each service line's wRVUs.

However, Otolaryngology's Irvine clinic was exempted from the 2019 Clinical Integration model due to a carve-out agreement. As a result, the Irvine clinic was allowed to keep all their net revenue. Accordingly, some Otolaryngology faculty physicians performing clinical work at the Irvine clinic continued to receive higher compensation than they would have otherwise received if the Irvine clinic was required to follow the new Clinical Integration model.

The high compensation levels received by some Otolaryngology faculty physicians performing clinical work at the Irvine clinic have been a concern of UC Irvine senior-level administrators for some time. In 2016, UC Irvine received public record requests for documentation pertaining to Otolaryngology compensation and more than one major California newspaper has published UC employee compensation which included Otolaryngology. Overall, Otolaryngology employee compensation has created a "headline risk" for UC Irvine and the UC Irvine SOM. It should be noted that the inquiry was satisfied and no other inquiries for Otolaryngology compensation have since been submitted to the UCI Public Records Office.

### **Management Action Plan**

With regards to the awake sinus surgery procedures performed at the Irvine clinic, Otolaryngology management will work with SOM management to align incentives for physicians to perform awake sinus surgical procedures to continue offering that service to appropriate patients in the community. It increases patient safety by avoiding general anesthesia and allows patients interested in that procedure to continue to seek care at UC Irvine.

Additionally, in January of 2021, Otolaryngology implemented an incentive plan to reward and recognize academic excellence in teaching, research, and service as part of the department compensation plan. The plan established specific metrics that must be met to be eligible for an incentive. The incentive plan had an effective outcome with all faculty members participating in the plan in meeting some or all of the metrics. The department's management will evaluate that plan and work with SOM to ensure that incentives are aligned with the institutional mission and that compensation is adequately monitored.

Otolaryngology plans to have a new finalized compensation plan by March 2023, with incentives to encourage research, teaching, and service in addition to clinical productivity. As part of this plan, we will work with SOM to determine a means to encourage appropriate Otolaryngology physicians to capture the patient population that can qualify for and benefit from awake sinus surgical procedures.

**Due date:** 03/31/2023