UNC Health Care System
Annual Report

FY 2005-2006

Committee on Educational Planning, Policies, and Programs

UNC Board of Governors

Submitted
September 8, 2006

Contents

The University of North Carolina
Health Care System

Background

The University of North Carolina Health Care System was established on November 1, 1998 to integrate UNC Hospitals with the clinical patient care programs maintained by the UNC School of Medicine. The vision of the UNC Health Care System is to be the Nation's leading public academic health care system--leading, teaching, caring. Our primary focus continues to be on improving the health of our patients and meeting their needs. We must deliver excellent service and operate leading programs. We must be deeply and broadly engaged with the people of North Carolina and the Nation to meet their health challenges. Throughout, we must maintain financial viability for the Health Care System, with margins sufficient to support our missions.

The addition of Rex Healthcare in April 2000 is an example of how the UNC Health Care System continues to evolve in size and complexity. The current structure of the Health Care System is illustrated in the organizational charts shown in Appendix lA and lB.

Actions Taken Under Flexibility Legislation - FY 2005-2006

The authority granted in N.C.G.S. 116-37 subsection (d) personnel; subsection (h) purchases; subsection (i) property; and subsection G) property construction has allowed the Board of Directors of the UNC Health Care System to approve the policies summarized below. The following report, depicting how this flexibility is utilized by the Chapel Hill component of the UNC Health Care System, will be sent to the Joint Legislative Commission on Governmental Operations on or before September 30, 2006, as required by statute.

FLEXIBILITY IN PERSONNEL POLICIES

Compensation

The 2006 fiscal year marked the fourth full year that the Health Care System's performance-based compensation system has been in operation. The flexibility granted the Health Care System enables us to award salary increases based on merit and relationship to market competition, rather than providing standardized across-the-board increases to all employees without regard to performance. Having the ability to reward and retain our best employees helps us to provide optimal services to the people of North Carolina. Managers have more responsibility and authority over the control of their budget and its allocation throughout the fiscal year through the process of decentralized salary decisions that helps them recruit and retain the best employees. The salary administration plan calls for increases to be awarded during the anniversary quarter in which an employee's performance is evaluated. This enables managers to communicate to employees the direct connection between performance and salary increase.

Salary band and pay zone adjustments are made using data assessment software that analyzes purchased market salary survey data combined with customized surveys. This relevant market data and supportive information is compiled, and comparison is made against the wages/salaries for our professional and support job classifications. The existing structure is adjusted forward as necessary to accommodate market movements. For example, salary information on the local market carries greater weight in determining the pay zone for nurses because the nursing market is driven by local healthcare employers. Other markets may be limited to a few local employers and some markets are selected from academic medical centers and healthcare employers of similar mission, size, or complexity.

FY 06 Compensation Plan

UNC Health Care raised its minimum wage of the Systems' lowest paid workers to $10.00 an hour or $20,800 a year effective October 9, 2005 with approval from the UNC Health Care System Board of Directors. This decision was made with support from UNC Health Care System CEO, Dr. William L. Roper, and with similar support from Dr. James Moeser, Chancellor of the University of North Carolina at Chapel Hill, who jointly agreed to adjust the salaries of the lowest paid workers in the UNC Health Care System and the University of North Carolina at Chapel Hill to the $10.00 an hour rate. A total of 426 UNC Health Care employees were eligible to receive salary increases equal to the new minimum wage, and the adjustment totaled $462,805. The affected employees were assigned to 32 different job classes in 3 job families including Services/Trades, Technical, and Office Clerical. The salaries of other eligible employees within the work units were also adjusted to lessen the salary compression and potential inequities.

The FY 06 operating budget included a 3.5% aggregate increase for employee compensation. The budget allocated to managers and departments was based on a market reference point compensation ratio. Individual departments were given allocations ranging from 2.70% to 4.43% of the base compensation budget. The flexibility afforded the Health Care System provides the following advantages:

- Managers were able to base employee salary increases on performance, current salary in relationship to market references point, and comparison to salaries and performance of other employees within a work unit performing the same type of work.
- Managers could offer either base-building increases, non-base-building bonuses, or a combination of both. In FY 06, 75% of our employees received base-building increases, 11% received non-base-building bonuses, and 7% received both increases and bonuses.
- Longevity bonuses were budgeted for employees with 10 or more years of service. These bonuses were based solely on years of service, without regard to performance.
- Bonuses were paid to inpatient staff nurses and ancillary procedure nurses in FY 06 as an incentive for attendance and retention. Staff nurses were eligible for a total of two $1,000 bonuses, distributed in six-month increments over the fiscal year.
- Our unique hiring scale for nursing staff utilizes different rates for inpatient bedside, hospital-based outpatient, procedure, clinic, and ambulatory clinic nursing staff--with

inpatient nursing, where staffing is most difficult, at the higher end of the scale. Market data indicates that rates vary among inpatient and outpatient care settings.

The aggregate compensation compared to the aggregate market reference points is used to measure the effectiveness of our compensation plan. The majority of the workforce should be compensated within 90-110% of the market average, according to the "market reference range." Our employee distribution and the end of FY 06 are as follows: 21% of employees are below 90%, 62% of employees are within 90-110%, and 17% of employees are at more than 110% of the market average. The percentage of employees at more than 110% of the market average is down 7% from the prior year's level of 24%. This does not reflect longevity pay, differentials, or sign-on bonuses, which are not calculated as part of the base wage for individual employees. At the conclusion of FY O6, the Health Care System's aggregate salary index was at 101.6% of the market average after all annual performance increases were awarded, thus allowing us to remain competitive in the healthcare market place.

Position Classification Activity

Several salary databases are utilized in the design of our compensation system. These databases include multiple purchased national surveys, regional surveys, statewide healthcare employer surveys, and in-house surveys. We analyze these surveys together or separately to gather the data relevant to developing a cohesive compensation scheme. Markets have now been defined for each profession and job category. Salary markets may be local, regional, national, or any combination of these to assure reasonable and accurate comparability within data surveys. These salary market designations are reviewed and revised annually. Our Compensation Steering Committee, which includes academic department representatives as well as senior management, departmental leadership, and compensation staff, also reviews this information.

Classification procedure policies place greater responsibility on management to recognize changes in work and recommend classification levels within the compensation structure. Rather than writing extensive job descriptions for reclassification purposes, managers are encouraged to emphasize key job responsibilities and characteristics and the relationship this work has to other positions within a specific work unit so that market data can be used to appropriately gauge the market value of a particular position.

Management requested 1,423 classification actions in FY 06, down from 1,563 requests in FY 05. Continued improvement in turnaround time is demonstrated by the fact that 84.4% of these actions were completed within 10 working days during FY 06, where 83% were completed within the same time frame in FY 05.

Recruitment Activity

There were 28,066 applications received in FY 06 in comparison to 20,033 in FY 05, reflecting an increase of 8,033 applications. At the close of FY 06, there were 281 positions posted for recruitment compared to 175 at the end of FY 05. The national and local market for healthcare workers continues to be extremely competitive and recruitment activities are increasingly

expanding into the national arena. In FY 06, 2,200 allied health, executive, clerical, outpatient, and ancillary staff were hired, including 1,304 nursing employees (Registered Nurses, Licensed Practical Nurses, Nursing Assistants and Health Unit Coordinators).
An interactive recruitment compact disk (CD) was developed to meet the increasing recruitment needs. Upon launching the CD on their personal computer, prospective applicants/employees are guided through information about the mission and values of UNC Health Care, extensive information about living in North Carolina and the Triangle area, and information about schools, housing, sports, and leisure activities. The CD links the user directly to UNC Health Care's current job postings and the on-line application. This interactive recruitment CD has won the Triangle Addy Gold Award, the Aster Excellence in Medical Marketing Gold Award, and Healthcare Advertising's Gold Award.

Nurse Employment

Offering weekend and night differentials has helped to stabilize staffing by assisting us to recruit and retain nurses for the shifts most difficult to staff. These differentials remain competitive within the local market. While our current rates for nurses are competitive, it is anticipated that market increases will continue to spiral upward with the escalating nursing shortage. Our strategies of workforce development, market based compensation, and retention efforts have helped to stabilize our nursing workforce over the past three years. Although we continue to add nursing positions, especially to correct staffing and patient acuity ratios, we believe that our reputation as a preferred employer within the local market helps us to continue to attract and retain staff.

Per Diem Nursing

Per diem employees receive higher wages and greater scheduling flexibility but do not receive benefits or contributions to employee retirement funds. Per diem staff generally work fewer hours per week and are utilized to assure staffing consistency. In FY 03, 96 of our nursing staff converted to per diem status. That number rose from 278 in FY 04, increased to a high of 491 in FY05, and decreased to 441 in FY 06. This innovative program helps the Health Care System to retain qualified staff, thereby stabilizing our critical workforce by providing employment alternatives more attractive than those offered to travel/ contract nurses. The flexibility of the per diem option enables UNC Hospitals to staff inpatient care areas with the professional resources appropriate to fluctuating census and acuity levels. This model also offers advantages over other health care employers for nurses who do not require employment benefits.

Employment and Retention

Our employment and retention strategy focuses on presenting a positive recruitment image to all applicants and an aggressive plan to retain staff nurses. A targeted, more selective recruitment approach has resulted in fewer vacant positions than in recent history. With retention being a targeted strategy and competency for managers, employee turnover had stabilized due to managers focusing on employee satisfaction, communication, and involvement in decision-making. System-wide turnover rates have held steady from 17.3% in FY 04 to 17.4% in FY 05.

Nursing turnover rates also remained steady at 17.8% in FY 04 and 17.7% in FY 05. However, in FY 06 the turnover increased to 19.2% system-wide.

Health Insurance Costs as a Recruitment and Retention Issue

Despite our best efforts at recruitment and retention, employees have expressed strong criticism and resentment regarding their health insurance costs; and we have documentation of staff lost to employers offering better health insurance benefits. Employees state that:

- Competing employers openly cite weaknesses in our health plan when recruiting our employees.
- With an annual cost of $5,760 for family coverage under the State Health Plan, employees who cannot afford this are electing to go without coverage for their dependents, leaving the children and spouses of these employees uninsured. In some cases, employees must rely on other social programs to partially insure their dependents.
- The lack of a "spouse only" option requires the employee to pay the family premium of $5,760/year to insure a spouse when there are no children requiring benefits.
- The current plan does not offer the choice in benefits or varying levels of coverage that can lower the cost of co-pays and deductibles. This can discourage employees from seeking treatment in order to avoid high out-of-pocket expenses.
- The rising cost of our health plan impacts the net income of our employees to the extent that it negates the effectiveness of the annual increases awarded through our aggressive compensation plan. Employees have expressed concern over the likelihood that they will continue to be affected by these increases due to the lack of a process at the Plan level to control escalating costs.
- Employees feel that this complex health plan is not responsive and that the benefits provided are not worth the cost of the premiums.
- Our current plan is not competitive with those commonly found in other contemporary labor settings in that it does not offer options that have benefit value for dependent coverage, wellness benefits, etc. When considering both plan design and contributions the relative value of the State Health Plan is competitive for employees electing single coverage (no contributions for single coverage). The plan is uncompetitive for employees electing family coverage or any other option. Currently, 80% of UNC Health Care System employees, many of whom have families, choose single coverage. Even with the proposed PPO Options, the plans are not as competitive in benefit value as they need to be. The plan value, according to a Towers and Perrin study commissioned by the Health Care System, has two components as indicated in the chart below.

    - When considering plan design and contributions, the current plan value improves for employees electing single coverage, since there are no contributions, but significantly decreases in value for employees electing family coverage, since employees pay the full cost for dependant coverage.

    - Considering plan design only, the current State Health Plan design is less generous than the plans offered by UNC Health Care System's key competitors relative values in the table below to show the differences. The two proposed

State Health Plans have higher plan design relative values (+3% and +12%) and generally provide greater value.

Our competitors' (Duke, Rex and Wake Medical) plans are valued at 122, 118, and 112 while the State Health Plan is valued at 100 and the best PPO Plan is valued at 112. The Plan Value Net of Contributions shows the PPO Plan options achieving 1.24 and 1.17 for dependent coverage while our competitors are 2.05, 1.91, and 1.63 respectively.

Health Plan	Plan Value Before Contributions	Plan Value Net of Contributions (Single/Family)	
State Health Plan (SHP)	1.00	1.00	1.00
SHP Proposed PPO Smart Choice	1.03	1.03	1.24
SHP Proposed PPO Smart Choice Plus	1.12	0.99	1.17
Duke	1.22	1.02	2.05
Rex	1.18	0.84	1.91
WakeMed	1.12	0.88	1.63

The limitations of our current health plan present a very real and significant barrier in our ability to recruit and retain qualified staff. We are hopeful that some of the changes projected through the new State Health Plan offerings will help with this ongoing problem; but based on our recent study, that appears doubtful. The flexibility afforded us by the State allows us to consider means such as employer-paid supplemental plans, sliding-scale wage adjustments, conversion of earned PTO to payments toward premiums, and perhaps a plan that is independent of the State Health Plan. Without this, we simply will not be able to recruit and retain top talent, despite our market-based compensation system.

Nurse Retention/Appreciation Bonus Program 2006

Nurses may receive up to two retention/appreciation bonuses per year depending on eligibility and achievement of targeted goals. These bonuses are paid at two designated points during the fiscal year--February and August--rendering new hires eligible to receive a bonus at the next designated pay point following successful completion of the probationary period.

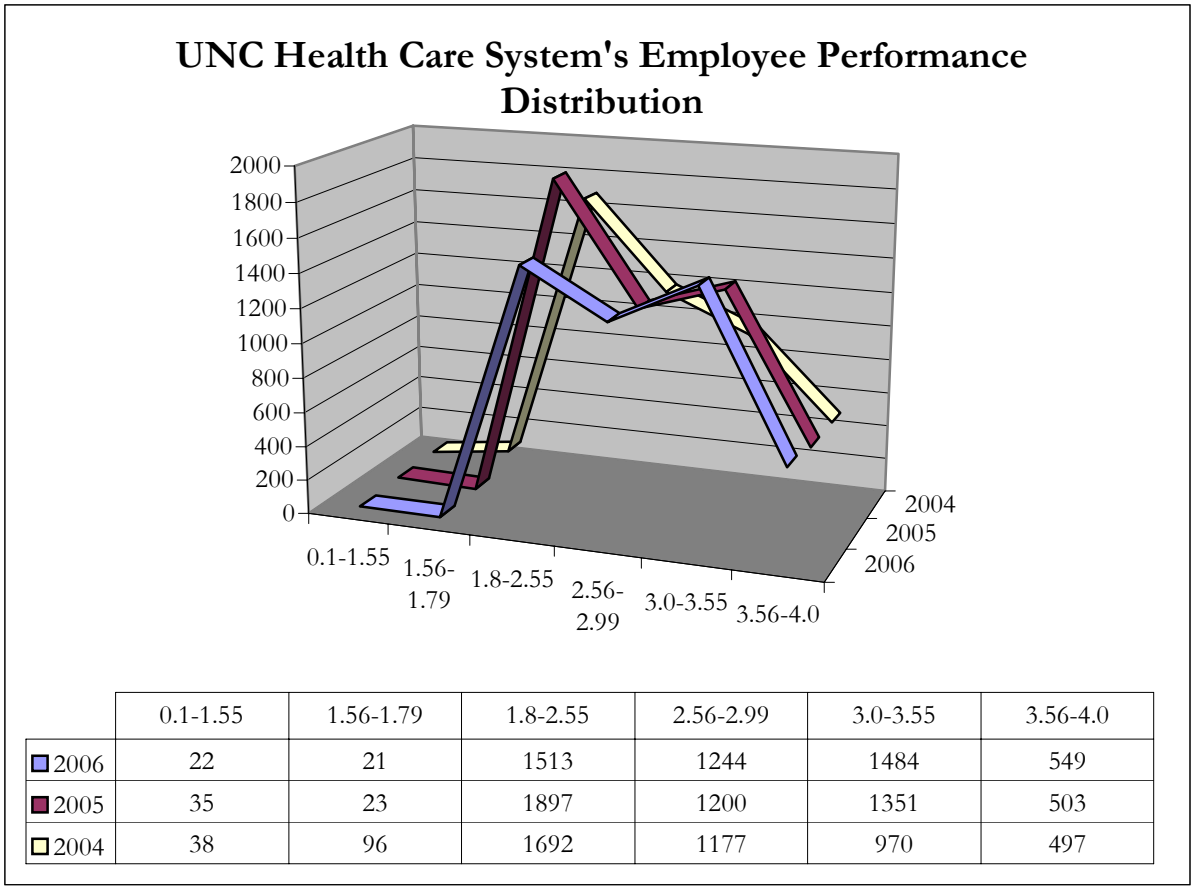
A primary objective of the bonus plan is to retain existing staff and reduce the number of traveler nurses required by UNC Hospitals. We have met this goal by reducing our traveler staff to little more than half of what it was: an average of 120 traveler nurses in FY 04 dropped to 62.1 in FY 05 and to 34.2 in FY 06. We feel this effort significantly benefits our patients through the continuity of care our staff nurses provide.

Nursing Professional Advancement Ladder

UNC Hospitals designed and implemented a Nursing Professional Advancement Ladder in FY 05. This program is a four-tiered performance-based career advancement system that provides a professional framework for developing, evaluating, promoting, and rewarding RN s that are direct caregivers. The four levels are based on a possible professional progression from novice/advanced beginner to competent, proficient, and expert. [Benner, P. 1984. *From Novice to Expert: Excellence and power in clinical nursing practice.*] The pathway from novice to expert is described in terms of how a nurse perceives, assimilates, interprets, and acts in response to clinical situations. By combining the novice and advanced beginner levels into a single-entry level of practice, the Hospitals' Nursing Professional Advancement Ladder Committee defined a total of four distinct levels of practice novice (Clinical Nurse I), competent (Clinical Nurse II), proficient (Clinical Nurse III), and expert (Clinical Nurse IV). All RNs are eligible for advancement to Levels III and IV when they meet the established criteria as described in this document. Advancement to Levels III and IV is voluntary. The purpose of the professional advancement system is to recognize that an individual has demonstrated the knowledge, skills, and abilities to advance to a new level once an opportunity is available. Advancement to the next level is granted when a nurse meets the qualifications for CNII, CNIII, or CNIV positions (as determined by the Nurse Manager for Level II or Professional Advancement Review Committees for Level III or IV). Eligibility for advancement is determined by achieving the goals outlined in an individual's advancement performance plan. Nurses may not advance during active phases of performance discipline. Since the implementation of the program in Fall 2005, 113 staff nurses advanced to CNIII or CNIV levels at a cost of $339,000.

Performance Management

The performance management system is linked to our compensation system (pay for performance) and requires that each employee's performance be rated within the calendar quarter of his/her employment anniversary. Managers rate employees on behavior standards and job-related functions with the overall totals for each of the two categories weighted at 50% of the total score. The resulting total performance score equates to "Not Met," "Achieves," or "Exceeds" with each having a designated range of scores on the performance continuum. For example, an employee can receive a composite performance score that might either represent a low "Achieves," middle "Achieves," or high "Achieves." This array of performance scoring provides the manager with the ability to reward actual performance at different rates for multiple employees at the "Achieves" level because of the distribution of the individual performance scores.



	0.1-1.55	1.56-1.79	1.8-2.55	2.56-2.99	3.0-3.55	3.56-4.0
2006	22	21	1513	1244	1484	549
2005	35	23	1897	1200	1351	503
2004	38	96	1692	1177	970	497

The performance scores climbed slightly in FY 06 with 42% of employees receiving an "Exceeds" score, 57% receiving a "Meets" score, and 1% receiving a "does not Meet" score. In FY 05, 37% of employees received an "Exceeds" score, 62% received a "Meets" score, and 1% received a "does not meet" score. The rise in the percentage of "Exceeds" scores may be attributable to some major modifications in the performance management tool during the past fiscal year that directly effect and enhance the manager/employee communication during the evaluation process. Overall, there appears to be a continuous move toward a normal distribution of performance scoring.

A self-evaluation feature was added in FY 06 to allow the employee to give feedback to their manager electronically as to how they would evaluate their own performance for the past plan year. Employees also have access to an electronic notes page where they can record information about their own performance to use when they are being evaluated.

A mandatory employee sign-off was instituted which ensures that the employee has reviewed and discussed his evaluation with the manager and has had an opportunity to enter his own comments if desired before the evaluation is closed and made a permanent record. The new sign-off procedure has strengthened employee confidence in the evaluation process and allows the employee the opportunity for feedback and input.

The Position Compensation Management (PCM) unit acquired the management of the performance management system job content functions and element content. PCM reviews the set of job-related functions for each classification of work and ensures that the description of the work is relevant for the particular job. The result is a more meaningful criterion-based and easily managed evaluation process for both manager and employee. As result of the work of the PCM group, managers and supervisors now have the capability of choosing job-related functions that best describe the work for a particular individual from a PCM-approved list of relevant work for the employee's job class. This manager capability results in a more tailored performance plan and works in tandem with PCM involvement to ensure a more accurate evaluation.

Nursing and Allied Health Educational Loan and Stipend Support Program

UNC Hospitals sponsors an educational loan and stipend support program that provides funds to students in nursing and allied health programs in exchange for a time-related work commitment. These funds are available for students pursuing four-year baccalaureate, community college, accelerated certificate, or bachelor degrees. Many educators cite this program as a strong incentive for students to pursue education and consider health care careers.

The program requires that students maintain a minimum 2.5 grade point average, agree by contract and promissory note to repay the loan through a commitment to work in clinical areas where the Hospitals have a staffing need, and agree to work a 36-40-hour week when employed. Students may choose the profession and field they would like to work in and may select the amount of funding support they desire. Work commitments range from 12 to 36 months to repay funding that ranges from $3,000 to $36,000. The higher support levels are designed to draw new graduates to nursing areas that are difficult to staff.

This program provides UNC Hospitals a recruitment advantage through the employment commitment of graduates who might otherwise consider offers from other employers. To date, 687 students have taken advantage of this funding program at a cost of $10.6 million to the Health Care System. These costs are offset by the benefits the program provides in eliminating the expense of costly traveler and contract staff and reducing general recruitment costs along with the need to recruit nationally and internationally. The need for traveler and contract staff has decreased from 166 in June 2003, 86 in June 2004, 72 in June 2005, and 44 in June 2006. It has been completely eliminated in radiology, pharmacy, and with nurse anesthetists, in part due to the use of education stipends.

Workforce Development for Employees in the Health Care System

The Health Care System provides significant tuition assistance for its employees. In FY O6, 312 employees took advantage of this assistance to pursue associate, bachelor, masters, and doctoral degrees at a total cost to the System of $311,148. Further development of this benefit will encourage employee growth in strategically important skills and professions by steering employees toward programs that directly benefit the System.

Employee Opinion Survey

In May and June 2005, the Health Care System underwent a full organizational employee opinion survey. The results of that survey provided guidance in our continual effort to improve our work environment and organizational structure. In May and June 2006, all System employees had the opportunity to participate in an abbreviated progress survey as a follow up to the previous Employee Opinion Survey.

- UNC Hospitals executive leadership selected five questions for this survey. One question was a demographic question identifying the employee's length of employment with the Health Care System. The Hospitals' other four questions focused on the perception of leadership's value of employees, internal communications, employee engagement, and the likelihood of employees referring family and friends to the Health Care System for care. Of the 4,529 eligible Hospitals employees, 66.9% (3,301) participated in the survey. The Clinics and P&A leadership chose the same demographic question. However, their other four questions focused on feedback on work performance, System improvements since the 2005 survey, work areas addressing the 2005 results, and communications from supervisors regarding organizational change. Of the 586 Clinics and P&A staff eligible to take the survey, 49.5% (290) did so.

When comparing similar questions on the 2005 Survey with the 2006 Survey questions, the data for the Hospitals indicates the following:

- A 10.1% positive increase in perception of leadership's value of employees.
- A 4.2% increase in the perception of improved internal communications.
- A 3.5% increase in employees' perception of Health Care System engagement of its employees.
- A 2.9% decline in the percentage of employees who say they would refer family and friends to the Health Care System. (Some significant subordinate responses to this questions are: a 3.1% increase in the percentage of employees who would not refer family and friends to the Health Care System, a 1.2% increase in the number of employees who were unsure if they would refer family and friends to the System, and a 1.4% decrease in the number of employees who preferred not to answer the question.)

When comparing similar questions on the 2005 Survey with the 2006 questions, the P&A and Clinics data indicates the following:

- A 5.6% increase in positive responses from leadership on feedback on work performance.
- A 13.6% decline in positive responses related to observing organization wide improvements since the 2005 Survey.
- A 4.5% decline in the perception that the employees' work area has addressed the results of the last (2005) Survey.
- A 2.7% increase in supervisors' communication of changes made since the previous survey.

The employee Opinion Survey Team has been working with executive staff members to begin the process of data and comments analysis as well as Action Planning for improvements moving forward.

Learning Management System Implementation

The UNC Health Care System leveraged advantages of e-Learning technology with our Learning Management System (LMS) by investing in pre-designed courseware and an online book library through a company called SkillSoft. A comprehensive catalog of over 1000 business skill and computer courses was made available to all employees in February 2006. The goal is to enhance employee satisfaction and productivity by putting tools and information in the hands of employees to meet their educational needs and interests for their jobs today and careers tomorrow. The hundreds of courses offered through the LMS can be accessed through one user-friendly site available from any computer in the workplace or home 24 hours per day/7 days per week. All Health Care System employees, including house staff along with credentialed medical staff and traveling/agency nurses, have access to the system. When organizations such as JCAHO, CMS, or the ACGME want to know what percentage of our staff is in compliance with a required or recommended course, the LMS can easily provide data on the completion rate of mandatory courses for all of these users.

Courses in line with one's job responsibilities or desire for career growth may be selected by an employee or assigned by management as a part of a curriculum. Instructors offer multiple classes for each course to provide optimal scheduling flexibility. Online courses offer even greater convenience and allow students to progress at their own pace. Managers have the ability to monitor progress and work with employees individually throughout the course. The LMS offers a wide spectrum of courses ranging from mandatory training in infection control, blood borne pathogens, tuberculosis, fire safety, and handling hazardous materials to instruction in operating payroll, billing, and computerized provider order entry (CPOE) systems. Nursing courses focus on clinical issues such as new policies, procedures, protocols, and equipment in addition to mandatory annual skills updates. The LMS tracks historical data, as well as information obtained since its implementation, for the more than 6000 employees who currently have access.

As of June 06, 2006, 839 employees have either completed or enrolled in 615 different courses, representing a 50% increase since the launch in February and the utilization continues to grow at an average rate of 12% each month. The total time spent using this type of business or computer skills courses has increased 97% since February and is now at 1,956 hours, representing an average 20% monthly increase. The average time per person spent using these resources is approximately 1 hour. The chart below shows the significant changes that have occurred in the short period of time that the LMS has been operational. While the number of courses taken continues to increase, the movement toward e-Learning is evident in the trends and changes.

LMS Course Data	Prior to FY05	FY05	% Change FY05	FY06	% Change FY06
Instructor Led Courses	557	836	33%	1,060	21%
Online Courses	99	167	41%	2,335	93%
Total Courses	656	1,003	35%	3,395	70%
Instructor Led Course Registrations	12,389	53,904	77%	50,151	-7%
Online Course Registrations	24,346	85,215	71%	121,172	30%
Total Registrations	36,735	139,119	74%	171,323	19%
Instructor Led Course Completions	11,129	51,266	78%	46,334	-11%
Online Course Completions	24,062	84,051	71%	116,630	28%
Total Completions	35,191	135,317	74%	162,964	17%

The LMS and SkillSoft course offerings have provided a very efficient method of allocating staff training time through the use and application of e-Learning technology. Future curricula will incorporate a blended learning approach to ongoing training and development.

FLEXIBILITY IN PURCHASING

The Purchasing Department Annual Report

All purchasing agents in the UNC Hospitals Purchasing Department are required to aggressively seek out and negotiate cost reduction in all purchases they are involved in for goods and services. As part of the process, they are further required to document the savings achieved. At the end of each fiscal quarter, they submit their total savings figure for that quarter to a designated file in a shared directory on the Hospitals' network. The detail documentation behind their totals are maintained by the purchasing agents and audited by the Purchasing Department manager on a regular, unscheduled basis.

The Purchasing Department Annual Report accumulates all operating expense and capital acquisition savings in summary format. Quarterly updates as well as the end of the year report are released to the UNC Hospitals and UNC Health Care System Chief Financial Officers not later than two weeks after the end of the quarter or fiscal year.

FISCAL YEAR	DOCUMENTED SAVINGS
FY 00	$ 1,078,942
FY 01	$ 1,999,671
FY 02	$ 1,598,958
FY 03	$ 1,411,289
FY 04	$ 2,880,312
FY 05	$ 3,443,312
FY 06	**$ 3,838,145**

The Flexibility Report

The Flexibility Report summarizes purchase orders totals from FY 2000 through FY 2006 and adds a subset of those numbers that represent all purchase orders totaling $10,000 or more. The enactment of Flexibility gave UNC Hospitals the ability to process purchase orders totaling $10,000 or greater, which prior to Flexibility had to be sent to the State of North Carolina's Department of Administration's Purchase and Contracts Division in Raleigh. This practice caused extensive delays with issuing purchase orders and cost UNC Hospitals time and money. We should also add that despite the increase in purchasing volume, there has been no increase of staff.

Purchase Order Stats		
FY00	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	46554	2858
Total Dollars*	$143,774,707	$87,507,181
Average Dollar Per PO	$3,088	$30,618
FY01	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	45939	3079
Total Dollars*	$167,908,964	$111,976,967
Average Dollar Per PO	$3,655	$36,368
FY02	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	48807	3592
Total Dollars*	$174,469,663	$114,703,994
Average Dollar Per PO	$3,575	$31,933
FY03	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	50968	4558
Total Dollars*	$239,028,570	$174,444,765
Average Dollar Per PO	$4,690	$38,272
FY04	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	49953	4444
Total Dollars*	$230,014,333	$165,902,468
Average Dollar Per PO	$4,605	$37,332
FY05	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	48841	3673
Total Dollars*	$251,120,363	$191,778,602
Average Dollar Per PO	$5,142	$52,213
FY06	***All Purchase Orders***	***Purchase Order Totals Over 10K***
Number of Purchase Orders	47957	3872
Total Dollars*	$247,779,579	$188,369,248
Average Dollar Per PO	$5,167	$48,649
* Total Dollars includes all PO costs (i.e., Goods, Services, Tax, Freight, Handling Fees, etc.)		

Patient and Staff Safety Initiatives

The products and equipment used at UNC Hospitals are frequently upgraded as technology and new product development present us with new opportunities to enhance patient care. Our

constant challenge then is to upgrade to safer, and often more costly, products while achieving expense reduction objectives. The dynamic influx of new products must be weighed against on-going expense reduction initiatives.

Kathleen Stickane, RN, the Clinical Materials Analyst for the Materials Management (MM) department, has partnered with clinical and support departments to systematically evaluate and convert product groups to those that are safety engineered. The following table outlines some of the products and programs implemented to enhance patient and/or caregiver safety.

ISSUE or PRODUCT GROUP	DEPARTMENTS UNCH MM PARTNERED WITH	RESULT
Combat Ventilator Associated Pneumonia (VAP)	ICU Nurses Task Force	New protocol employing existing products plus a new suction toothbrush which is expected to reduce the incidence of VAP in patients
Central line kits	ICU managers and nurses	Protocol and cart established to provide all necessary products at the fingertips of the clinicians which is expected to decrease bloodstream infections
Latex gloves and foley catheters	Various nursing areas	Introduced nitrile gloves and latex free foley catheters as stock items to provide appropriate treatment to latex allergic patients and to protect latex allergic staff
Peripheral IV securement	Various nursing areas	Provides increased support of peripheral IV's in an effort to protect the patient from re-insertion of the IV because of site failure
Lift equipment and education	Employee Safety and Nursing	As a result of product research and a vendor fair we established a three-year program to bring in the proper lift equipment and educate staff regarding its use. This program is designed to decrease lift-related injuries to the staff
Feeding pumps	Children's Hospital	Evaluated and selected a new feeding pump that provides a safety mechanism against free flow of formula and delivers a wider rate per hour range
Needle stick prevention	Infection Control and Nursing	Safety products were available but not widely used. An education and conversion program was implemented whereby unnecessary non-safety products were eliminated to further protect staff from contaminated needle sticks

Routine and Ad Hoc Reporting

A key function of the Materials Management Department of UNC Hospitals is to support the department-based acquisition process through the use of timely and relevant reports. A variety of reports measure productively, track buying trends and categories, benchmark volumes against

other similar organizations, and help formulate negotiation strategy. We look at the tangible benefits derived from the use of the flexibility guidelines and note the intangible benefits as well. Our use of flexibility guidelines allows us to use activity information to make informed decisions. These decisions do not always surface on the balance sheet or in a savings report, but they are essential to the financial well-being of the organization.

Our ability to manufacture ad hoc reports on demand is therefore critical to the decision support process. As an example, the following report was created to take a 12-month snapshot of the volume of supplies, in dollars, in which the main storeroom (Central Distribution) purchases from our primary supply distributor, Owens & Minor, and compares to all other vendors from which the storeroom buys.

ACCT	ACCT DESC	O&M SPEND	ALL OTHER VENDORS	TOTAL	O&M PERCENT OF TOTAL
170110	Inventory - CD	$10,313,554	$8,532,936	$18,846,489.24	55%

Materials Management staff also routinely produce reports that measure purchasing volumes and activity. Since much of the activity we track was performed outside of the UNC Hospitals Purchasing Department prior to Flexibility, this process should also be considered as an on-going benefit of Flexibility guidelines. The following two reports represent a portion of the information that is collected, tracked, and reported:

Dollars Spent by Service

FY06	July-05 to Sept-05	Oct-05 to Dec-05	Jan-06 to Mar-06	April-06 to June 06	Grand Total
RX Dollars	$11,478,996	$12,473,790	$15,812,783	$14,026,667	$53,792,236
Prosthesis Dollars	$6,441,022	$6,462,745	$6,133,251	$6,912,470	$25,949,488
Radiology Dollars	$2,168,632	$1,737,972	$2,872,034	$2,767,579	$9,546,217
Nutrition Dollars	$454,256	$409,860	$442,737	$441,107	$1,747,960

Dollars and Volumes by Purchasing Category

Fiscal Year 2006 Year End Summary	
INVENTORY	
Total PO Dollars	$ 19,421,748
Number of Lines	47,756
NON-STOCK	
Total PO Dollars	$ 31,484,142
Number of Lines	44,125
SPECIALS	
Total PO Dollars	$ 76,659,257
Number of Lines	55,238
SERVICE	
Total PO Dollars	$ 123,095,564
Number of Lines	29,853
GRAND TOTALS	
Total Number of PO's	47,733
Number of Lines	176,972
Avg Number of PO's Per Business Day	17.6
Avg Number of Lines Per PO	3.7
Total PO Dollars	$ 250,660,711
Average Dollar Per PO	5,251
Average Dollar Per Line	1,416
CAPITAL * 200700	
Total PO Dollars	$ 24,413,807
Number of Lines	1,401
% of Total PO Dollars	9.7
Avg Dollar Per Line	$ 17,389
MINOR EQUIPMENT * 726900, 726901, 729000	
Total PO Dollars	$ 4,896,860
Number of Lines	4,032
% of Total PO Dollars	1.95
Avg Dollar Per Line	$ 1,214

The minor differences between the figures for all purchase orders for FY 06 in this report and the same information on the Flexibility Report shown earlier can be attributed to a timing difference between running the reports.

Other Noteworthy Materials Management Accomplishments

Purchasing Department Operational Objectives and Certification

The value of any organization's purchasing department is dependent upon the experience and education of the purchasing staff and the ability of the staff to consistently and thoroughly become involved in the actual acquisition process on a departmental level. Purchasing staff are responsible for maintaining certification with the support of the hospital. The UNC Hospitals Purchasing Department manager and five purchasing agents are Certified Purchasing Managers

by the Institute for Supply Management. One other purchasing agent is in the process of attaining this certification. Two other purchasing agents are Certified Professional Public Buyers by The National Institute of Governmental Purchasing, Inc.

When a professional purchasing agent is engaged in the early stages of the purchase of a piece of capital equipment or the examination and bidding process of a specific product group, the chances are very good that we will be able to show a cost savings when the purchase is finalized. Therefore, management has fostered an organizational atmosphere that places the purchasing agent at the very beginning of the acquisition process. The Purchasing Department Annual Report is an expression of the value of Flexibility to UNC Hospitals. It is also verification of a process that allows professionally trained purchasing agents to utilize their skills to the ongoing benefit of the Hospitals.

Bed Repair & Storage Center

In order to meet immediate and long-term fire safety and accreditation requirements for keeping our hallways uncluttered, space was allocated in a portion of the Central Distribution storeroom for the storage and repair of adult beds and cribs.

Removal of Surplus Equipment and Furniture

UNC Hospitals entered into an agreement with major medical supply auction house to facilitate the removal and sale of hospital surplus equipment. Two auctions in FY 2006 that featured our surplus equipment have netted The Hospitals a total of $5,600.

Managing Accruals

When products are received by the Hospitals but a corresponding invoice has not been obtained, an accrual is noted in our accounting system. This accrual is an expense as accepting a delivery implies a debt on our part. The following table displays the average monthly accrual for products that are received but not yet invoiced:

FISCAL YEAR 2006 AVERAGE MONTHLY ACCRUAL RECEIVED BUT NOT INVOICED	**$ 4,706,104**

Although a seemingly large figure, the $4.7M represents only 3.7% of our annual product spend.

Because of the importance of this "submerged" activity, the Materials Management Department has developed a policy and procedure for managing it and has committed dedicated resources to the process. Prior to these policies being implemented, this accrual exceeded $8M.

Capital and Minor Equipment Acquisitions

The Equipment Management Committee (formally the Capital Equipment Committee) was formed to provide decision support to hospital administration for capital and minor equipment purchases with an emphasis on product standardization, technology review, and financial value for the short and long term.

UNC Hospitals has additionally contracted with MDBuyline, a nationally know organization, to provide better information when purchasing equipment. By accessing their extensive database, we garner product specific acquisition and lifetime cost. UNC Hospitals can thereby evaluate vendor quotes, perform life cycle costing, produce Return On Investment reports, and note customer satisfaction for a variety of modalities by manufacturer. This puts us in a stronger negotiating position and helps us choose the right products to meet the needs of our patients and staff.

Unscheduled Cost Increases Due to Natural Disasters

The natural disaster that struck the Gulf Coast last year left in its wake not only untold millions of dollars of destruction but a critical shortage of oil and natural gas that effected supply expense. Soon after the disaster, many manufacturers of hospital products advised us that they would pass on the increased cost for manufacturing petroleum-based products to their customers. In response to these notices, the UNC Hospitals Materials Management Department issued a position statement affirming that such adjustments were an unacceptable burden to our health care system. This message was received clearly and the manufacturers rescinded earlier advisements.

FLEXIBILITY IN PROPERTY MATTERS

Property Involving Leased Space for Clinical Programs

The UNC Health Care System Property Committee reviews new leases and also renews existing leases.

The following leases have been established since September 2005:

1. A lease was agreed upon to accommodate UNC Hospitals' Home Health Program in Chatham County. This office is located in Pittsboro, NC and involves 800 square feet of space.

2. A lease involving 540 square feet was established to accommodate UNC Hospitals' Speech and Hearing Program located in Durham County. This program provides support to the UNC P&A owned ENT Clinic which occupies contiguous space.

3. A lease was established for the UNC School of Medicine's Department of Otolaryngology (ENT) in Durham County. This new lease involves 2,400 square feet of space to support the ENT's clinical programs.

4. A lease was agreed upon to provide 1,600 square feet of space to house the UNC School of Medicine's Department of Psychiatry. This space, located in Chapel Hill, NC supports the First Episode Early Child Development Program.

5. A lease was established to accommodate a new Dermatology Clinic. This property is located in the Southern Village Subdivision of Chapel Hill, NC and provides 4,295 square feet of space to facilitate the expansion of the department's clinical programs.

The follow leases have been renewed since September 2005:

1. The lease for UNC Hospitals' Hospice Program located in Pittsboro was renewed. This lease involves 3,957 square feet of space to house UNC Hospitals' Hospice Program in Chatham County.

2. An existing lease involving UNC Hospitals' Wound and Diabetes Clinic was renewed to accommodate this program. The space is located in Durham County and includes 9,095 square feet to support this clinical program.

3. A lease was renewed to maintain UNC Hospitals' Outpatient Dialysis Center in 2,450 square feet of space located in Siler City, NC.

4. A lease was renewed to continue to accommodate the UNC School of Medicine's Allied Health Department of Occupational Therapy and Physical Therapy. This space is located in Hillsborough, NC and involves 1,891 square feet.

5. A lease involving the UNC School of Medicine's Department of Nephrology was renewed for 1,610 square feet of space located in Burlington, NC.

Property Involving Leased Space for Administrative Functions

1. A new lease for 27,907 square feet of space was agreed upon to allow UNC Hospitals to better meet its storage needs. This space was leased at Starpoint Storage Park, located in Chapel Hill, NC, to serve as the primary storage and support of the supply chain operations.

2. Office and support space was leased at the Raleigh/Durham Airport for UNC Hospitals' ground ambulance services. This lease involves 1,600 square feet of space to consolidate UNC Hospitals' air and ground ambulance services to make them operationally more efficient which has led to reduced costs as well.

3. Space was leased at Starpoint Storage Park in Chapel Hill, NC, to accommodate mock-up rooms to serve as prototypes for a typical patient room, exam room, and an infusion

station. These rooms will allow clinicians and others to review them before actual construction of the North Carolina Cancer Hospital to ensure their design meets clinical needs and expectations. This short-term lease provides 1,500 square feet of space.

4. UNC Hospitals entered into a new lease to provide warehouse storage space for its Plant Engineering materials for maintenance, construction, and equipment. This lease involves 6,000 square feet of space located at Starpoint Storage Park in Chapel Hill, NC.

Property Owned

UNC Hospitals is working with a tenant in a building it owns in the Meadowmont Subdivision of Chapel Hill, NC. This tenant, which leases space to operate a retail business has been delinquent in the payment of rental fees. UNC Hospitals is attempting to forge an agreement for them to reconcile the arrears within a defined time period.

Acquisition by Deed:

1. Seven and four-tenths (7.4) acres of land located in the Amberly Development, Wake County (Cary), was purchased on which to build a Wellness Center to be owned and operated by UNC Hospitals.

FLEXIBILITY IN CONSTRUCTION MATTERS

The Construction Bidding Oversight Committee uses approved criteria to determine when to utilize alternative forms of construction bidding (e.g., single-prime versus multi-prime). For the scale of UNC Hospitals' typical renovation projects, single prime contracting has proved to be very effective. This method provides for public bidding of construction work as required and also makes project managers more efficient because they have to coordinate with one versus multiple contractors. Therefore, the Construction Bidding Oversight Committee has approved use of the single-prime bidding method for typical renovation projects. For non-typical projects, a formal presentation, review, and discussion of proposed alternative bidding methodologies is required.

During the past year, the following projects were initiated using single-prime bidding according to the approval protocol by the Construction Bidding Oversight Committee:

- ACC Orthopedic Clinic and Radiology – To relocate an orthopedic clinic from the Bed Tower of UNC Hospitals to the Ambulatory Care Clinic Building into consolidated space with a private practice atmosphere.
- CT Scanner Addition – Two additional scanners were installed to meet increased demand for this diagnostic service.

- EKG Relocation –This program is being relocated to another area of UNC Hospitals to improve its physical adjacencies and layout, facilitate patient throughput and privacy, and to make it easier for patients to access.
- GI Procedures – This project expands and reconfigures existing space to improve patient flow, increase the waiting room size to accommodate increased demand and to provide additional support space.
- MRI 5 Addition – An additional unit was installed to meet increased demand for this vital service.
- Neurosciences Flooring and Medical Gas Installations – Rubber flooring is being installed to reduce the potential for tripping and to minimize injuries when falls occur. Medical gases are being added to accommodate the needs of patients on the psychiatry units.
- Wound Care Clinic – This clinic is being relocated from the Highgate Specialty Center (several miles from the main campus) to UNC Hospitals' campus space vacated by the Orthopedic Clinic.

Design contracts were approved for the following contracts in accordance with the designer selection procedures approved by the UNC Health Care System Board of Directors.

- 3-West Flooring and Nurse Station – A nurse substation will be installed to improve the efficiency of nursing, physician, and other clinical staff members and to replace damaged flooring on the unit.
- CT Scanner Addition – See above.
- EKG Relocation – See above.
- McLendon Clinical Lab Renovations – Improvements to these facilities are desired to increase efficiencies, replace outdated equipment, and minimize the potential need for future construction when technology changes and equipment requires replacement.
- MRI 5 Addition –See above.
- Neurosciences Flooring and Medical Gas Line Installations – See above.
- PET/CT Scanner Addition - An additional scanner will be installed to meet increased demand for this service.
- Wound Care Clinic – See above.

All Construction Bidding Oversight Committee discussions are documented and maintained for review.

FLEXIBILITY IN OTHER AREAS

The UNC Health Care System continues to benefit from the flexibility delegated to us by the State in ways that we might not have initially envisioned. This is an exciting time for the UNC

Health Care System as we make improvements that would not be possible without our flexibility status. The following two areas represent ways in which this status has allowed us to significantly improve our operations and better serve the people of North Carolina.

UNC Health Care System's Performance Improvement Project

We engaged Navigant Consulting, Inc., in September 2004 to provide a comprehensive view of the Health Care System's operations. The goal was to increase the System's financial margins by improving performance and cost competitiveness while maintaining quality of care, customer satisfaction, and commitment to academic excellence. The consultants provided 793 recommendations to improve the procedures and processes of UNC Hospitals and UNC Physicians & Associates (P&A) and their clinics.

The recommendations fell into three broad categories: Improvements in revenue cycle management, patient throughput and capacity management, and the development of a productivity-based clinical compensation plan. Many of these recommendations have already been implemented.

- The UNC Health Care System's Board of Directors approved a financial assistance plan in keeping with our mission to serve our State's most vulnerable populations. The plan offers a comprehensive discount and charity policy for UNC Hospitals and P&A. As of August 1, 2005, all uninsured patients were eligible for a 25% discount on all Hospitals and P&A charges. Beginning January 1, 2006, patients below 250% of the federal poverty guidelines ($48,375 for a family of four) were not charged for services beyond co-payments at the time of service.
- Additional procedures continue to be initiated to inform patients, prior to their arrival, of the cost of the services they are scheduled to receive. We also continue to enhance the notification to Medicare patients of services not covered, prior to providing these services.
- An increased focus on discharge planning and better coordination with nursing and physicians continues to evolve. All discharges are being tracked within the Canopy database, and standards for discharge metrics have been established.
- The Surgical Operations Governance Group was created to govern day-to-day activities in all operating room areas. Members of this group include representatives from Hospitals Administration, Anesthesiology, Surgical Services, and surgical departments. Implementing and monitoring of performance metrics for all areas of the operating rooms is a primary goal of this group. Another objective is to provide those who use the operating room with an opportunity to participate in improvements in capacity, operations, and throughput in order to fully utilize this important resource.
- The productivity-based clinical compensation plan provides a common framework for clinical chairs to reference when determining salaries and bonuses for clinicians. This is the first time the Health Care System has attempted to create and implement a system-wide compensation plan. The plan will function as a guideline for chairs, who will be able to tailor the plan to suit their department's needs. Demonstration of incentives to increase productivity, which is the main thrust of plan, must be retained in any changes

made by department chairs. The clinical department chairs and UNC Legal Services are in the final stages of completing the Clinical Department Compensation Plan.

Recommendations will continue to be implemented as part of an ongoing process over the next two years, especially in the areas of increasing access to outpatient appointments, management of data, and improvements in emergency room throughput.

UNC Physicians and Associates

UNC Physicians and Associates (P&A) occupies a unique position in the UNC Health Care System. The UNC School of Medicine has 17 clinical departments, all of which are involved in teaching, research, and providing clinical care in both the inpatient and outpatient settings. These clinical activities are integrated through P&A and are a component of the Health Care System. P&A is directed by Dr. Marschall Runge, President of UNC Physicians, and Mr. Keith Gran, Chief Operating Officer of UNC P&A.

The importance of the clinical faculty and their medical practice cannot be overstated. The performance of any hospital is entirely dependent on the physicians who practice there. The only physicians who practice medicine at UNC Hospitals or in the UNC Ambulatory Clinics are faculty in the School of Medicine, and the vast majority of their clinical practice occurs in these settings, although there are a small percentage of practices in Raleigh and other parts of North Carolina.

Major advantages of the position of P&A in the Health Care System, which are not possible in a private practice model, include the potential to improve clinical care across all areas of practice and the potential to align the interests of our physicians with those of the UNC Health Care System.

To realize these goals, P&A relies on its two major roles in the Health Care System. First, P&A represents a "group practice" of medicine. The decision-making process involves an Executive Committee and the Budget and Finance Committee, with the later chaired by Dr. Alan Stiles and which makes recommendations to the P&A Board, chaired by Dr. William Roper. Final decisions are made by the P&A Board on a wide range of topics involving the practice of medicine, organizational and financial issues, managed care contracting, and the operation of P&A itself. It is not uncommon for the P&A Board to have to make decisions that may benefit one group of physicians (or component of the System) while negatively impacting another.

In its second role, P&A is a service organization. As such, its role is to provide excellent billing and collections for the clinical departments, leadership in the revenue cycle (related to billing and collections), superb managed care contracting expertise, and necessary insurance coverage (malpractice, supplemental health, life, disability, etc.) at the most competitive rates. In all of these functions, P&A works in collaboration with UNC Hospitals.

Since Dr. Runge and Mr. Gran assumed authority of P&A in March 2004, their goal has been to further improve the performance of the organization. As documented below, there have been substantial improvements in all areas. This has been done while improving the overall morale of

the organization, substantially reducing turnover and significantly reducing the costs associated with the principle functions of P&A.

FY 06 was another very productive year for P&A in all missions. In addition to the continued growth in clinical programs and improvement in business procedures, FY 06 has seen increased research in the clinical departments and major revamping of the medical student and graduate (resident and fellow) educational programs, all of which have been very favorably received. (Research and teaching accomplishments are described elsewhere in detail.)

With the leadership of Dr. Brian Goldstein, we have initiated a number of efforts to further improve the quality of our care delivery and patient safety. The UNC Health Care System Quality Council, the body that oversees performance improvement and patient safety activities, includes the chairpersons of every clinical department. UNC P&A physicians continue to lead several improvement efforts begun in the past 1-2 years. Examples of such efforts include: 1) the creation of a Pediatric Medical Emergency Team to bring critical care expertise to patient outside the ICU; 2) a campaign to further improve hand hygiene (we have already documented that UNC's compliance is among the best in the nation); and 3) reducing the time between diagnosis and treatment of blocked coronary arteries.

As one part of these efforts, we continue our work on monitoring patient complaints and acting proactively with physicians and staff. We are beginning to see positive results from our Patient Complaint Monitoring Committee, which is a joint effort between UNC P&A and UNC Hospitals with guidance and consultation from Dr. Gerald Hickson and his colleagues at Vanderbilt University. We have counseled physicians who have an increased complaint index and have seen improvement. We believe that part of our favorable recent record in malpractice claims is due also to this program.

Financially, the P&A and clinical department performance has improved, even from the high levels achieved last year.

1. The number of Clinical faculty increased by 58 in FY 06.
2. Physician productivity increased by 6%.
3. The net gain for the P&A for FY 06 was $17.5 M. This includes an expense reduction for malpractice insurance of $7 M resulting from more favorable claims experience. However, even without this unanticipated expense reduction, the P&A finished FY 06 at $10.4 M. The reserves of the clinical departments now stand at $98.9 M, the highest level ever. This is at a time when many academic practice plans have seen major losses.
4. We continue to strive to control expenses. Savings by the P&A central office alone contributed $700K to the net gain in FY 06. Excluding the previously mentioned malpractice expense reduction, we had a 6.1% increase in Operating Expenses, with a 1% negative budget variance.
5. Of note, employee turnover at P&A is at its lowest recorded level.

The performance of UNC P&A continues to benefit from the ever increasing integration and cooperation across the UNC Health Care System. Our department chairs and clinical leaders are our greatest resource, the importance of which cannot be overemphasized. After a year of major

staff reorganization, we have continued to make important but less widespread changes and to spend great effort communicating these changes. Mr. Gran continues to host town hall meetings, to foster our employee suggestion program, and to conduct mini-surveys and a host of other initiatives that continue to result in improved performance. Dr. Runge continues to work closely with the clinical chairs and hospital directors to address new challenges and problems. He has continued his weekly newsletter and worked with others in seeking to provide communication on upcoming changes across the Health Care System.

Ambulatory operations continue to improve under the leadership of Dr. Allen Daugird (Medical Director and Vice President of Ambulatory Care). Patient satisfaction in our clinics is at an all-time high. In addition to our existing 14 Community-Based Practices, new outreach clinics have opened in Dermatology (at Southern Village) and Otolaryngology and Surgical Oncology (both at Falcon Ridge, near the intersection of Highway 54 and I40). We also are developing new clinical initiatives throughout the community. Dr. Runge and Mr. Brian Toomey (Director of Piedmont Health Services) have begun collaborations between the UNC Health Care System and Piedmont Health Services that we believe will very much enhance our ability to care for under-served people throughout North Carolina. In collaboration with UNC Hospitals, we have begun to design and implement a new appointment scheduling system that will improve access to all of our clinics. We believe that with the leadership of Dr. Allen Daugird and with considerable input from Dr. Roper, Dr. Runge, Dr. Goldstein and the clinical chairs, we have built a consensus that will allow us to move forward in this critical initiative.

We anticipate that the delivery of clinical care, the quality and safety of our clinical care and our financial performance will continue in FY 07.