



EXECUTIVE SUMMARY
Guam Memorial Hospital Authority
Compensation Controls
Report No. 12-04, November 2012

With compensation being the largest expenditure ranging from 63% to 72% of GMHA's total budget for fiscal years 2009 through 2011, we found weak basic controls to ensure authorized and accurate compensation to personnel who were paid more than \$100 thousand (K) annually. Specifically, we found weak management oversight as thresholds were not established, the Safe Hours policy was not enforced, and timekeeping and payroll controls were not implemented. This was particularly prevalent for Physicians' compensation where there was a general lack of review or reluctance to question the hours worked by physicians. Further, there is no system in place to correlate the hours compensated to physicians compared to billable hours charged to patients. These and other management oversight weaknesses contributed to employees receiving more than 25% over their base pay during the three years audited without review and authorization, which can be potentially excessive and unauthorized. Total questioned costs amounted to \$206K for the 15 individuals tested in the three pay periods. This represents 53% of the \$387K in total compensation paid for the three pay periods. Had additional testing been undertaken, we believe questioned costs would likely be significantly higher.

Between calendar years (CY) 2009 and 2011, GMHA paid on average \$10.5 million (M) annually or 21% of its annual compensation, for a total of \$31.6M, to 78 individuals who were compensated more than \$100K per year. The 78 individuals were primarily physicians and nurses with salaries ranging from over \$100K to over \$700K. During our audit, we found that GMHA has a complex pay structure that contributes to errors and presents opportunities for possible payroll abuse, waste, and fraud. Specifically, there are 44 types of pay codes within the system, which, depending on the type of pay, are manually inputted.

Weak Management Oversight Contributes to Potentially Excessive Compensation and Hours Worked

We found that the lack of management review contributed to employees receiving more than 25% of their base pay during the three years audited. Additionally, GMHA's compensation system has not been monitored and managed by using thresholds as a guide for further scrutiny. Furthermore, there was a lack of enforcement of its Safe Hours Policy. We found that two employees worked over 3,000 hours annually with one employee working nearly 3,500 hours, which poses a risk to the welfare of employees and patients.

Compensation More Than 25% Over Base Pay

We found that there is no compensation threshold policy to require or trigger a review by management when it exceeds a specified threshold, such as 25%, to ensure that employees are not being paid above the budgeted salary and that the exceptions are reviewed and justified. Of the 78 individuals, 37 employees received more than 25% over their base pay, wherein 16 occurred in all three years, 7 occurred in two years, and 14 occurred in one year. Among the 37

individuals, we found 20 employees received more than 50% over their base pay, of which four received more than 100% of their base pay in at least one of the three years audited.

Based on our testing of 15 individuals, each was compensated more than their base pay in at least one of the three years audited ranging from a low of 2% to a high of 227%. For Physicians in our testing, we found that one individual was compensated in excess of 200% of his base pay for two consecutive years and there was no evidence that the Medical Director or a secondary reviewer independently reviewed, verified, and approved the Physicians' hours reported in 2010.

Lack of Scrutiny of Radiologist Hours

There is a general reluctance to review much less question the hours worked by Physicians, including Radiologists. In CY 2010, a Radiology Physician (Radiologist) received compensation of \$765K or 219% over the base pay authorized for a part-time Radiologist. This Radiologist also earned in excess of his base pay or \$782K in 2009 and \$735K in 2011, and worked more than 3,000 hours in each of the three years for an average of 63 hours per week without any annual or sick leave. We noted several instances where we could not verify whether the hours claimed were authorized as no times were specified on the department's work schedule, and hours claimed were beyond the part-time Radiologist's scheduled hours. We found no evidence that the Medical Director independently reviewed, verified, and approved the hours that were reported for 2010. With the amount of compensation paid to Physicians, we found no correlation or tracking of compensation paid to Physicians compared to Physicians' billings.

Hours Worked in Excess of 2,080

Of the 78 individuals from 2009 through 2011, we found that two employees worked greater than 3,000 hours, which can potentially put both the employees and patients' health and welfare at risk. In fact, for one employee, we found that no leave was taken during all three years. The second employee worked nearly 3,500 hours in one year. During our testing, we found instances where employees worked beyond the Safe Hours Policy. GMHA does not have any built-in mechanisms within its payroll system to indicate when an employee is close to violating the Safe Hours of Work criteria. Without these payroll mechanisms in place, management cannot be sure appropriate and sufficient actions are taken to protect the welfare of employees and the patients.

Timekeeping and Payroll Controls Need Strengthening

We tested three pay periods in 2010 for 15 individuals, where the deficiencies noted include: timesheets not reviewed and approved, unauthorized or unjustified hours, dual employment held without proper approval, manual time recording instead of electronic reporting, and manual calculation of certain types of pay.

Timesheets Not Reviewed and Approved

We found no built-in control within the payroll system to delay processing of payment when the timekeeping entries have not been reviewed and approved. For example, a Radiologist was paid \$23,204 for 101 hours in a two-week pay period, but there was no evidence that his time was reviewed and approved by the Medical Director or another secondary reviewer.

We also found an Emergency Room (ER) Physician solely approved his own timesheets for the three pay periods tested, resulting in \$48K in questioned costs. This ER Physician received

compensation of \$327K in 2009, \$362K in 2010, and \$333K in 2011. This ER Physician received payment for certain pay codes that he was not entitled to. No one should approve his or her own timesheet as it creates an opportunity for individuals to commit payroll abuse or fraud, such as allowing one to receive unauthorized pay.

Unauthorized or Unjustified Hours

We traced the time shown on manual and electronic time sheets to the approved work schedule and verified the coding of the hours worked and reported (i.e., regular hours, overtime, back-in pay, etc.), and found the following deficiencies: (1) Hours paid did not match work schedule; (2) No appropriate schedule to verify timekeeping; and (3) Schedule did not provide regular time shifts to verify hours worked.

Dual Employment Held without Approval

A full-time ER Physician, who was paid \$382K in 2009, \$357K in 2010, and \$411K in 2011, has been holding a second employment since 1987. However, the request for outside employment was not annually renewed in accordance with GMHA's policy as the only approval form found on file was in September 2007. We noted that this Physician's outside employment position entails heavy responsibility and requires personal commitment. We also found no documentation on file to determine whether the hours worked at the outside employment complied with GMHA's Safe Hours of Work Policy. Given that this ER Physician worked an average of 49 hours per week, we question why such documentation was not kept on file. Practices among the Physicians have accommodated this Physician's outside employment, but the safety and welfare of patients may be jeopardized if the amount of hours worked in both employment places exceeds GMHA's Safe Hours of Work Policy.

Complex Pay Structure Contributes to Errors

We also recognized that GMHA has a complex pay structure. Specifically, there are 44 pay codes within the system (i.e., regular, overtime, on-call, weekend, certification, night differential, etc.), which at times are manually inputted. By having multiple pay codes within the system, there is a risk that the wrong pay code will be used in determining an employee's compensation and opportunities for possible abuse, waste, and fraud.

Recommendations

We made several recommendations to the Hospital Administrator, including: enforcement of GMHA's policy for all employees to clock-in electronically, establishing built-in mechanisms within the payroll system, implementing compensation threshold policies, and developing a tracking system to correlate Physicians' hours worked and paid to billings by Physicians.

On November 7, 2012, OPA met with GMHA officials to discuss the audit report. GMHA management fully concurred with the findings and recommendations and provided their official response on November 5, 2012.



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