



EXECUTIVE SUMMARY
Guam Memorial Hospital Authority
Compensation Controls for Employees' Salaries Below \$100,000
Report No. 13-04, December 2013

Over the last three years, the Guam Memorial Hospital Authority (GMHA) has experienced fluctuating staffing levels and a number of vacancies in several departments, which have fostered the need for additional hours worked and overtime for its employees. Between calendar years (CY) 2010 and 2012, GMHA paid a total of \$121 million (M) to 1,304 individuals who were compensated less than \$100 thousand (K). Our audit found that GMHA's compensation controls were better managed for personnel who were paid less than \$100 thousand (K) compared to those compensated greater than \$100K.

For the 28 individuals tested, GMHA documented compensation for multiple pay types, such as annual leave, overtime, and additional straight time; timekeeping was electronically maintained through the GMHA AS400; and timesheets were reviewed and approved. Although GMHA controls were better managed for employees receiving less than \$100K, we found:

- Certain exempt employees were compensated \$9K in overtime and \$31K in additional straight-time;
- Four Housekeeping employees consistently worked over 3,000 hours annually, of which two received \$115K in overtime over a three-year period;
- Part-time employees were compensated as high as 316% over their base pay; and
- Errors due to manual inputting of weekend and certification pay.

In our previous audit (OPA Report No. 12-04), we found that compensation controls for salaried physicians and employees compensated over \$100K were more lenient; inconsistently applied and administered, and at a higher risk for excessive compensation, errors, misreporting, and abuse. Specifically: 1) there was a lack of scrutiny over Radiologists' hours; 2) timesheets were not reviewed or approved; and 3) work hours were not authorized or justified.

Overtime and Straight-time Pay Afforded to Certain Exempt Employees

In this audit, we found several weaknesses pertaining to exempt employees: 1) two were compensated \$9K in overtime; 2) \$31K in additional straight-time was provided to a Supervisor; and 3) 18 employees were misclassified as exempt when their duties were of a non-exempt nature. These conditions occurred due to management's ability to override the payroll system, GMHA's practice to allow additional compensation, and GMHA's misclassification of exempt employees.

The additional straight-time compensation, which is calculated as additional hours worked times the employee's base rate, paid to certain exempt employees has been GMHA's practice for several years. This practice is not written or formally adopted by the GMHA Board. In line with the Fair Labor Standards Act, GMHA is not required to pay overtime or compensatory time to employees in a bona fide executive, administrative, or professional capacity; except for exempt employees who provide

direct patient care. Though this has been a common GMHA practice and is not illegal, it is a questionable practice that is not equitably applied between executive line agencies and GMHA.

Four Housekeeping Employees Worked in Excess of 3,000 Hours

During CY 2010 through 2012, Housekeeping was the only department wherein 16 employees worked more than 2,500 hours in at least one of the three years reviewed. Of the 16 employees, four employees consistently worked more than 3,000 hours annually, of which two received \$115K in overtime over a three-year period. One Housekeeper II was compensated an average of \$44K annually and worked an average of 1,605 hours or \$25K in overtime. GMHA does not have any built-in mechanisms within its payroll system to indicate when an employee is exceeding their scheduled hours within a pay period. Had their Safe Hours of Work policy been formally adopted, these four employees would have worked beyond what the policy would have typically allowed. Such a policy provides guidance to ensure the safety and health of employees and patients, and to ensure work is performed in a safe manner. GMHA has yet to have this policy approved by its Board.

Part-Time Employees Compensated over 50% of Base Pay

Due to the nature of GMHA's mandate to provide round-the-clock medical services, there are enhanced opportunities for part-time employees, as well as full-time, to receive significant compensation over their base pay. Our analysis revealed that 46 part-time employees received compensation ranging from 50% to 316% over their base pay as there is currently no compensation threshold policy established.

Manual Inputting Resulted In Nominal Errors

GMHA has yet to implement automation of certification and weekend pay within its payroll system. Although we found errors due to the manual inputting of certification and weekend pay for those employees compensated below \$100K, this had a nominal net effect of \$(86) compared to the \$6,721 questioned for employees compensated over \$100K in our previous audit.

Conclusion and Recommendations

GMHA has better payroll controls for employees compensated below \$100K, whereas our previous audit found weak management oversight and inconsistent application of payroll practices over the compensation of physicians and employees compensated over \$100K. We identified questioned costs amounting to \$40K compared to the prior audit's questioned cost of \$206K.

From this audit, we recommend that the GMHA Director: 1) amend the classification of exempt positions to reflect the Code Federal Regulations requirements of said duties; 2) restrict positions considered "exempt" from overtime compensation; and 3) adopt the Safe Hours of Work Policy. We also reiterate our previous recommendation to automate certification and weekend pay within its payroll system.

GMHA management generally concurred with the findings and recommendations and have introduced new processes and internal controls to ensure accurate human resources and payroll procedures. See official response in Appendix 10.



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