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Controller-Treasurer

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Supervising Internal Auditor

September 8, 2006

Assignment 10114

To: Distribution List

Subject: Internal Audit Report – Payroll Audit of Valley Medical Center Doctors for FY 2006

We have completed a Payroll Audit of Valley Medical Center Doctors. We conducted the audit during March through July 2006 covering FY 2006.

We thank the Valley Medical Center, Santa Clara Valley Health and Hospital Finance, and Controller-Treasurer Department staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signatures on file

David G. Elledge  
Controller-Treasurer

Bill Perrone, CIA  
Supervising Internal Auditor

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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT - INTERNAL AUDIT DIVISION

## **INTERNAL AUDIT REPORT**

### **Payroll Audit of Valley Medical Center Doctors for FY 2006**



Assignment 10114  
September 8, 2006

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## Executive Summary

**Conclusion** Based upon the results of our testing, there are adequate internal controls over payroll payments to Valley Medical Center (VMC) doctors. Overall, VMC has established adequate control environment and control activities to ensure 1) proper payments of regular pay, 2) proper reporting of time off taken, and 3) no payments are made to terminated doctors. VMC properly paid off-hour compensation to all its doctors except for the trauma surgeons. The surgeons incorrectly reported their time. We identified \$49,963 (10% of total trauma pay of \$496,125) in over and under payments to trauma surgeons. See finding 1. We also noted that VMC could strengthen its internal controls regarding time reporting by establishing written policies and procedures for all departments. See finding 2. Also, the Controller-Treasurer Department should revise the County policy on time reporting. See finding 3.

Valley Medical Center and the Controller-Treasurer Department are in agreement with all the findings and recommendations contained in this report.

**Audit Objective and Scope** The audit objective is to determine whether there are adequate internal controls over payroll payments to Valley Medical Center doctors. The scope of the audit included:

- Reviewing regular pay
- Determining whether time off taken was properly reported
- Identifying whether payments were made to terminated doctors
- Testing off-hour compensation

Our audit scope covered only Valley Medical Center Physicians (job code P41) and Psychiatrists (job code P55). The audit scope did not include reviewing whether payroll payments reflected the correct pay rate and deduction of taxes and voluntary deductions.

**Audit Background** This audit was conducted as a result of our FY 2006 Macro Risk Assessment. We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Details about our findings and recommendations are provided below.

Signatures on file

David G. Elledge  
Controller-Treasurer

Bill Perrone, CIA  
Supervising Internal Auditor

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## Findings and Recommendations

**Finding 1**                    **There were payment errors to trauma surgeons for off-hour compensation due to incorrect time reporting by the doctors.**

The Department of Surgery overpaid one trauma surgeon \$6,230 and underpaid eight doctors \$43,463 for off-hour compensation in FY 2006. The total error of \$49,963 represents 10% of the total trauma pay of \$496,125. Each trauma surgeon is responsible for accurately reporting all hours worked by the established timeline each pay period. In addition, time reported for off-hour compensation should be verified against the call schedule prior to payment. The overpayment of off-hour compensation resulted from incorrect time reporting by the doctor. The overpayment also occurred because the Department of Surgery did not reconcile the reported trauma hours to the call schedule. Also, changes to off-hour trauma assignments are not always updated in the call schedule. The underpayments occurred because the trauma surgeons did not turn in a timesheet for the hours worked and during one pay period the incorrect pay code was used but the department was not notified that the hours entered were not paid. No recommendation will be made regarding the incorrect pay code, as this has been resolved. The department administrative staff sends a reminder to all the doctors to turn in their timesheet every pay period.

**Recommendation 1.1** The Department of Surgery should reconcile the timecards submitted by trauma surgeons against the call schedule prior to payment. [Priority 2]

**Recommendation 1.2** All changes to off-hour trauma surgery assignments should be properly reflected in the call schedule. [Priority 2]

**Recommendation 1.3** The Department of Surgery should continue its current efforts of reminding the trauma surgeons to submit a timesheet each pay period for all off-hours worked. Ultimately, however, it is the doctor's responsibility to submit a timesheet each pay period by the established timeline in order to be paid. [Priority 2]

**Finding 2**                    **Valley Medical Center can strengthen its internal controls by establishing written policies and procedures regarding time reporting for all departments.**

Currently, only four out of the 12 VMC departments reviewed have written policies and procedures regarding time reporting. Written policies and procedures should be established for all departments to formally communicate management expectations, train new employees in the event of staff turnover, and strengthen the internal control environment. VMC management has not required that each department document its policies and procedures regarding time reporting. In general, VMC's current policies and procedures relating to time

reporting are adequate and should be documented.

**Recommendation 2.1** Valley Medical Center should develop written policies and procedures regarding time reporting for the departments of Surgery, Obstetrics/ Gynecology, Medicine, Pediatrics, Anesthesiology, Radiation Oncology, Orthopedic Surgery, and Neurology. [Priority 2]

**Recommendation 2.2** The written policies and procedures should document the department's current procedures on time reporting and payroll payments and include, at a minimum, the following [Priority 2]:

- Request and approval of time off
- Supervisor approval of the physician time off report/timecard or reconciliation of the physician time off report/timecard to supporting documents such as the approved request for time off form, calendars/schedules, etc.
- Department chair's signature on the biweekly Physician Time Off Summary Report with a copy sent to the Chief Medical Officer.
- Requirement that all doctors submit a signed physician time off report/timecard by the established timeline in order to be paid. As an alternative to signing the physician time off report/timecard, the doctor can email it as this action serves as the doctor's signature.
- Approval of all off-hour compensation or reconciliation of off-hour work reported to approved calendar or schedule.

**Finding 3** **The County policy on time reporting should be revised.**

The current County policy on time reporting was established in 1981 and states that "departments shall ensure proper control over the processing of MSA's (Personnel Action Forms) and proper control over payroll processing from the posting of attendance sheet information to the distribution of payroll warrants." The policy referred to practices under the former payroll and personnel system (MSA). Since the establishment of the time reporting policy, the County implemented a new payroll and personnel system (HARP) as well as a time reporting (KRONOS) system. The Controller-Treasurer Department should revise the policy to state the expectations for proper time reporting and not to address specific payroll practices. The detail procedures to comply with the overall policy should be developed by the departments. Each department will have different internal procedures based on their operation and time reporting practices; however, those internal procedures should comply with the overall policy established by the Controller-Treasurer Department.

**Recommendation 3.1** The Controller-Treasurer Department should revise the County policy on time reporting. The policy should cover [Priority 2]:

- a) The employee's responsibility for accurate time reporting and the supervisor's responsibility for approving time, as originally reported and any subsequent changes.
- b) A requirement that each department establish internal procedures to comply with the policy.

**Attachment A**  
**FY 2006 Payments To VMC Doctors By Department**

<u>Department</u>	<u>Cost Center</u>	<u>Regular Pay</u>	<u>Off-Hour Pay</u>	<u>Total Pay</u>
Anesthesiology	6561	\$3,905,134.72	\$1,493,475	\$5,398,609.72
Pathology and Laboratory Medicine	6580	\$1,151,751.87	\$0	\$1,151,751.87
Diagnostic Imaging	6593	\$4,254,920.44	\$0	\$4,254,920.44
Radiation Oncology	6609	\$446,669.06	\$0	\$446,669.06
Trauma Surgery	6639	\$0.00	\$496,125	\$496,125.00
East Valley Clinic	6642	\$2,847,976.13	\$0	\$2,847,976.13
San Martin Clinic	6644	\$940,490.64	\$0	\$940,490.64
Chaboya Clinic	6652	\$1,102,744.36	\$0	\$1,102,744.36
Silvercreek Clinic	6654	\$535,075.98	\$0	\$535,075.98
Fairoaks Clinic	6668	\$306,360.58	\$0	\$306,360.58
Medical Administration	6769	\$226,119.54	\$0	\$226,119.54
Information Services	6837	\$127,682.11	\$0	\$127,682.11
Hospital Operations	6853	\$235,703.69	\$0	\$235,703.69
Homeless Health Care	6881	\$213,110.08	\$0	\$213,110.08
Child Protection	6890	\$57,375.00	\$0	\$57,375.00
Orthopedic Surgery	6893	\$1,318,952.76	\$98,850	\$1,417,802.76
Surgery	6895	\$5,302,016.80	\$155,450	\$5,457,466.80
Medicine	6897	\$10,811,078.99	\$0	\$10,811,078.99
Pediatrics	6898	\$5,816,054.32	\$288,097	\$6,104,151.32
Obstetrics and Gynecology	6899	\$5,230,020.56	\$0	\$5,230,020.56
Physical Medicine and Rehabilitation	6900	\$1,271,503.56	\$0	\$1,271,503.56
Neurology	6902	\$463,969.76	\$0	\$463,969.76
Acute Psychiatric Services	6911 & 6915	\$1,818,138.68	\$0	\$1,818,138.68
<b>Total Pay</b>		<b>\$48,382,849.63</b>	<b>\$2,531,997</b>	<b>\$50,914,846.63</b>

Percentage of total pay

95%

5%



Dedicated to the Health  
of the Whole Community

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September 7, 2006

To: Dave Elledge, County of Santa Clara Controller/Treasurer

Fr: Alfonso Bañuelos, M.D. Chief Medical Office

Re: Response to Findings and Recommendations - Payroll Audit of Valley Medical Center Doctors for FY 2006

**Finding 1** There were payment error to trauma surgeons for off-hour compensation due to incorrect time reporting by the doctors.

**Recommendation 1.1** The Department of Surgery should reconcile the timecards submitted by trauma surgeons against the call schedule prior to payment.

**Response** SCVHHS agrees with this recommendation and will include it in written policies and procedures.

**Recommendation 1.2** All changes to off-hour trauma surgery assignments should be properly reflected in the call schedule.

**Response** SCVHHS agrees with this recommendation and will include it in written policies and procedures.

**Recommendation 1.3** The Department of Surgery should continue its current efforts of reminding the trauma surgeons to submit a timesheet each pay period for all off-hours worked. Ultimately, however, it is the doctor's responsibility to submit a timesheet each pay period by the established timeline in order to be paid.

**Response** SCVHHS agrees with this recommendation and will communicate it to doctors at orientation and in scheduled meetings throughout the year.

**Finding 2** Valley Medical Center can strengthen its internal controls by establishing written policies and procedures regarding time reporting for all departments.

**Recommendation 2.1** Valley Medical Center should develop written policies and procedures regarding time reporting for the departments of Surgery, Obstetrics/ Gynecology, Medicine, Pediatrics, Anesthesiology, Radiation Oncology, Orthopedic Surgery, and Neurology.

**Response**

Historically SCVHHS management has relied on payroll policies and procedures developed at the Countywide level. Some SCVHHS cost center managers have developed their own procedures to control their areas. SCVHHS agrees with this recommendation and will develop SCVHHS payroll and timekeeping policies and procedures and will work with cost center managers to develop procedures specific to their areas where necessary.

**Recommendation 2.2** The written policies and procedures should document the department's current procedures on time reporting and payroll payments and include, at a minimum, the following [Priority 2]:

- Request and approval of time off
- Supervisor approval of the physician time off report/timecard or reconciliation of the physician time off report/timecard to supporting documents such as the approved request for time off form, calendar/schedules, etc.
- Department chair's signature on the biweekly Physician Time Off Summary Report with a copy sent to the Chief Medical Officer.
- Requirement that all doctors submit a signed physician time off report/timecard by the established timeline in order to be paid. As an alternative to signing the physician time off report/timecard, the doctor can email it as this action serves as the doctor's signature.
- Approval of all off-hour compensation or reconciliation of off-hour work reported to approved calendar or schedule.

**Response**

SCVHHS agrees with this recommendation.

cc: David Claude  
Susan Murphy  
Kim Roberts

# County of Santa Clara

Finance Agency  
Controller-Treasurer Department



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September 5, 2006

To: Bill Perrone, Supervising Internal Auditor  
Jena Trinh, Senior Internal Auditor

From: Irene Lui, Division Manager

A handwritten signature in black ink, appearing to be "Irene Lui", is written over the name in the "From:" line.

Subject: Payroll Audit of Valley Medical Center Doctors for FY 2006

We appreciate the time and efforts you spent reviewing the Payroll of Valley Medical Center Doctors for FY 2006. We agree to implement the recommendation you made as outlined below:

### Recommendation 3.1

The Controller-Treasurer Department will review the existing time reporting policy and make revisions to cover:

- a) The employee's responsibility for accurate time reporting and the supervisor's responsibility for approving time, as originally reported as well as any subsequent changes; and
- b) A requirement that each department establish internal procedures to comply with the policy.