

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 3, 2018

Mr. Jonathan A. Dandes  
Chair  
Erie County Medical Center Corporation  
462 Grider Street  
Buffalo, NY 14215

Re: Employee Incentive and Bonus  
Payments  
Report 2018-F-06

Dear Mr. Dandes:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we have followed up on the actions taken by officials of the Erie County Medical Center Corporation to implement the recommendations contained in our initial audit report, *Employee Incentive and Bonus Payments* (Report 2016-S-29).

**Background, Scope, and Objective**

Erie County Medical Center Corporation (ECMCC) is a public benefit corporation created under Public Authorities Law Section 3626 to manage the Erie County Medical Center health network. ECMCC is the only major public hospital in western New York and provides sophisticated and specialized patient care services to New Yorkers in eight counties. ECMCC is governed by a Board of Directors and managed by a Chief Executive Officer (CEO). Under the Public Authorities Law, ECMCC is required to report various salary and other compensation data using the Public Authorities Reporting Information System (PARIS), an online data entry and collection system.

Between January 1, 2017 and December 31, 2017, ECMCC reported 4,023 employees on its payroll, including 211 Management Confidential (MC) employees. ECMCC offers two incentive programs, based on performance and productivity, to certain MC physicians. Performance incentives reward a physician for meeting certain criteria specified in the ECMCC employment agreement. Productivity incentives reward physicians based on the time and intensity associated with providing patient care services, which are measured and calculated using agreed-upon values specified in the ECMCC employment agreement.

Our initial audit report, issued on January 13, 2017, determined if ECMCC's incentive and bonus payments were warranted, supported, and distributed appropriately based on program intent and/or established criteria. We found ECMCC did not properly administer certain incentive payments made to its employees. For the audit period reviewed, we identified \$76,254 in incentive payments that should be recovered from employees because they were not justified under the terms of the relevant incentive plan, were distributed in error, or were miscalculated. In addition, we identified incentive payments that either had insufficient documentation or were otherwise not amenable to definitive analysis to determine whether they were entirely appropriate. Finally, despite employment contract language identifying performance and productivity awards as incentives, ECMCC did not consider performance incentives to be additional compensation, but rather a portion of the physician's agreed-upon fair market value annual compensation that is withheld (at risk) until specific criteria are met, and did not report the incentive payments separately, as required, to PARIS.

The objective of our follow-up was to assess the extent of implementation, as of May 15, 2018, of the four recommendations included in our initial audit report.

### **Summary Conclusions and Status of Audit Recommendations**

We found that ECMCC has made progress with addressing the issues identified in our original audit. Of the four recommendations contained in our audit report, three have been implemented and one has been partially implemented.

### **Follow-Up Observations**

#### **Recommendation 1**

*Recover the \$76,254 in unwarranted performance and productivity incentives.*

Status - Partially Implemented

Agency Action - In March 2017, ECMCC implemented procedures to recover \$50,168 in unwarranted payments through payroll deduction for three of the four doctors we identified in our prior audit, and, as of April 2018, had recovered \$13,920 of the \$50,168. ECMCC officials believe the original documentation provided was sufficient to support the remaining \$26,086 identified as unwarranted and will not attempt recovery. However, based on our review of the documentation and further discussions with ECMCC, we believe ECMCC should pursue recovery of the \$26,086.

#### **Recommendation 2**

*Further assess the \$86,261 of unsupported incentive payments made to the four physicians, as cited in the report, and determine if additional disallowances and recoveries are warranted.*

Status - Implemented

Agency Action - ECMCC executive management completed an informal assessment of the unsupported incentive payments and found documentation supporting \$1,667 of the \$86,261 in unsupported incentive payments identified. ECMCC determined that, in the absence of documented support, no additional disallowances and recoveries are warranted, as there is no way to determine compliance with incentive payment criteria. ECMCC will not pursue the remaining \$84,594. However, ECMCC has implemented stronger procedures to ensure performance incentive payments for physicians are appropriately authorized and based on measurable, documented performance metrics.

### **Recommendation 3**

*Ensure that incentive payments are properly classified for annual PARIS reporting purposes.*

Status - Implemented

Agency Action - ECMCC corrected the misclassification found in our initial audit, and our follow-up review found that incentive payments were classified separately from salaries in 2016 and 2017. In addition, our comparison of payroll data to PARIS data for 2016 and 2017 showed ECMCC had properly classified the incentive payments for the 16 physicians we previously identified as having improperly classified incentive payments.

### **Recommendation 4**

*For all incentive and bonus programs and payments: improve monitoring, maintain appropriate supporting records, and ensure that payments are in full compliance with contractual stipulations and commensurate with actual achievements.*

Status - Implemented

Agency Action - ECMCC has implemented stronger compensation procedures for physicians to ensure performance incentive payments are appropriately authorized and based on measurable, documented performance metrics. A dedicated staff member has been assigned to review supporting performance documentation to determine if it meets the prescribed contractual criteria needed to authorize payment. Additionally, ECMCC has updated incentive payment criteria in employment contracts for specific employees identified during the original audit to ensure the metrics reviewed for compliance meet the stated contract criteria.

Major contributors to this report were Laurie Burns and Robert Horn.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues in this report. We thank the management and staff of the Erie County Medical Center Corporation for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Nadine Morrell, CIA, CISM  
Audit Manager

cc: Thomas Quatroche, Jr., PhD, ECMCC  
Stephen M. Gary, Sr., CPA, ECMCC