

# Hospital Accountability Project

# Phoebe Putney Memorial Hospital

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A project of nonprofit consumer advocacy group Georgia Watch, the Hospital Accountability Project examines the financial practices of nonprofit and for-profit hospitals in the state as they relate to health care consumers and affordability.

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## *Executive summary*

Located in one of the country's poorest areas, Phoebe Putney Memorial Hospital treats the majority of southwest Georgia's majority of uninsured, underinsured and publicly insured patients. But the hospital is known throughout the country for its high health care costs and high executive pay, as evidenced through their IRS tax return documents and other publicly available documents. While some of its practices have changed since both the government and the public turned their eyes to the hospital, Phoebe Putney still carries that legacy intact.

For example, Phoebe Putney has:

- Continued to carry some of the highest health care costs in the nation;
- Heavily contributed to the campaign of a political candidate running against an Albany-area lawmaker who, the previous year, introduced legislation that would give substantial discounts to uninsured patients;
- Marked up prices overall in 2007 by 210 percent, with the actual costs of services totaling \$357,452,957, though they charged patients \$752,273,508; and,
- Delivered compensation packages to high-level hospital executives and key employees that included hundreds of thousands of dollars in salary and benefits. For example, in 2006, Phoebe Putney CEO Joel Wernick made approximately 50 times the annual salary of the average Albany resident, the city where the hospital is located. Other executives made many times over the average per capita income as well.

As with other counties in the state, unemployment rates continue to rise and the number of insured consumers continues to decrease. Because of Albany's high health care costs, many residents postpone needed care, a delay that has a direct impact on their health.

**Uninsured rates in Albany soar far above the state and national average, leaving its residents to face substantial obstacles in financing health care.**

In addition, the hospital has come under increased public scrutiny over the last few years due to its role in a controversy comparable to a John Grisham novel. According to legal filings, Phoebe

representatives allegedly harassed, threatened and intimidated accountant Charles Rehberg and Dr. John Bagnato after the pair sent out faxes - known as the Phoebe Factoids - critical of the hospital. These faxes were sent to various businesses during 2003 and 2004, and focused on the distress of the uninsured through Phoebe's overcharging and mistreated of uninsured and underinsured patients, including ones employed by the hospital. The controversy surrounding Phoebe - and the faxes - continues to linger, and legal cases arising from the ordeal continue in the courts.

## *About Phoebe Putney Memorial Hospital*

Established in 1911, Phoebe Putney Memorial Hospital became a tax-exempt nonprofit organization in 1991, forming Phoebe Putney Health System as the parent company. Phoebe Putney Memorial Hospital serves 26 counties in southwest Georgia. It is the largest employer in Albany, Ga. The hospital has 443 beds and more than 3,400 employees, at a payroll of over

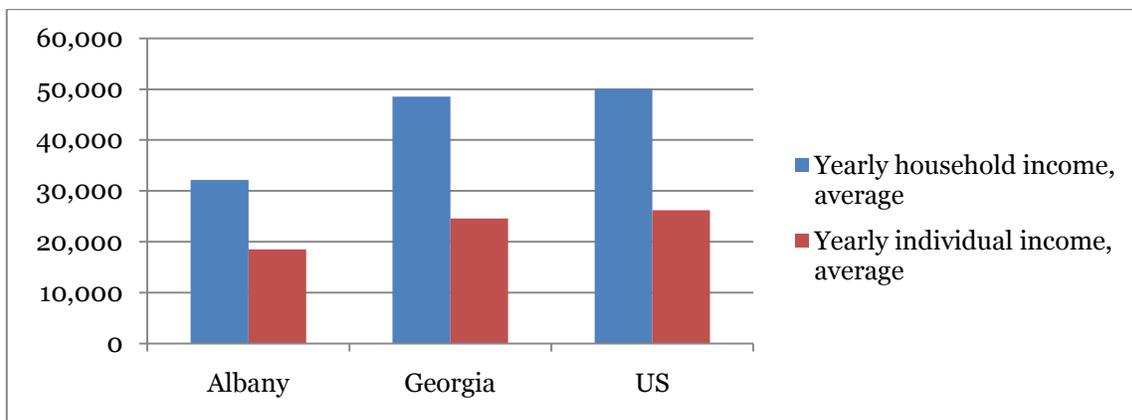
\$110,000,000. There are about 300 physicians on staff. In a given year at Phoebe Putney Memorial Hospital, nearly 3,000 babies are born, approximately 53,000 people visit the emergency room, and about 16,000 surgeries are performed.<sup>1</sup> Phoebe Putney is significantly larger than its only area competitor, the for-profit hospital Palmyra Medical Centers, which staffs approximately 450 employees.

Phoebe Putney Memorial Hospital is owned by the Hospital Authority of Albany/Dougherty County, which "leases" to the hospital board its grounds and equipment for \$1 per year. The Authority acts as a pipeline for transfers of funds between government programs and the hospital. Phoebe Putney's Board of Directors is responsible for the management of the hospital's resources. The Phoebe Putney Health System also holds Phoebe Worth Medical Center in nearby Sylvester, Ga., as well as Phoebe Health Ventures, the Phoebe Foundation, the Gohupad Clinic and Grove Point Indemnity, an insurance company formerly located in the Cayman Islands.

It is the primary hospital in the area the state health department dubs State Service Delivery Region One, though Phoebe's reach spans far outside the region's line. Uninsured residents inside Region One are three times more likely than all Georgians to report only fair or poor health status. The uninsured are also less likely to receive preventative care than their insured counterparts, and they are almost twice as likely as the insured to have had a routine checkup in the previous year.

They are also more likely to be sick than those with coverage, more likely to miss six or more days from work or school, and about 70 percent less likely to have visited a doctor in the last six months.

In Dougherty County, where Phoebe Putney is located, approximately 21 percent of the residents are uninsured, and countless others underinsured. Almost 30 percent of Albany residents live below the poverty level – more than twice the national average of 13.3 percent. Nearly 21 percent of Albany's families are below the poverty level, a figure that is also more than twice the state's average of 11.1 percent. Approximately 26.5 percent of the city's individuals live below the poverty level, as compared to a state average of 14.5 percent, and a national average of 13.3 percent.



Albany is also center of the ninth poorest congressional district in the United States, and is in the state's most impoverished area.

### *The high cost of care*

Like most hospitals, Phoebe Putney significantly marks up the cost of its services, a spike many justify as a way to offset the cost of unreimbursed care for patients qualifying for indigent or charity care, as well as the bad debt incurred by treating uninsured patients who are unable to pay their bill. Even so, uninsured patients are the only patients expected to pay the full amount, and if those patients do not qualify for financial assistance, they are pursued by collections to repay that debt. For those who cannot, their credit may be damaged and, for some, they may face bankruptcy.

While markups are common in today's health care market, charges for services of which Phoebe Putney is the only area provider are higher than the national average. Two of the most expensive services at Phoebe Putney are cardiac procedures, such as heart catheters and bypass surgery – services that only Phoebe Putney offers. The other hospital in the area, Palmyra Medical Centers, is not able to offer these services due to state "Certificate of Need" restrictions, leaving Albany residents with only Phoebe as their source of cardiac care.

**For example, while a cardiac catheter or in 2007 would cost an average \$12,078 at hospitals throughout Georgia, the same procedure at Phoebe Putney would cost \$17,737.<sup>1</sup> And, though it only costs an average of \$3.19 for a technician to draw blood, Phoebe Putney charges \$10.80.**

These sort of mark-ups continue to grow as Phoebe Putney's prices increase, such as in July 2007, when the hospital announced an across the board increase of 6 percent for both in-patient and outpatient services. At the time, Phoebe Putney CEO Joel Wernick claimed the hospital would only receive about 1.5 percent of the increase, citing cutbacks in Medicaid, Medicare and insurance reimbursements. But in the end, it is the uninsured and uninsured patient that pays.

### **Collections**

Hospitals are the number one client of collection agencies.<sup>ii</sup> The federal Fair Debt Collections Practices Act prohibits a hospital from forming a collection agency to collect on their debt. However, hospitals can circumvent the federal prohibition by joining together to form their own a collection agency.

For example, HIS Financial Services is the primary collections contractor for member hospitals of the Voluntary Hospital America Georgia (VHA Georgia), including Phoebe Putney. The HSI Financial Services board of directors is made up of various nonprofit hospital executives, including Phoebe Putney Chief Financial Officer Kerry Loudermilk, who has served as chairman in the past, though he now just sits on the board without that responsibility.

Phoebe Putney reported to federal lawmakers that, between 2002 and 2005, the hospital filed 559 suits against uninsured patients, including:<sup>iii</sup>

	2002	2003	2004	Sept. 20, 2005
<b>\$100 - \$500</b>	79	41	46	28
<b>\$500 - \$1,000</b>	68	68	42	12
<b>\$1,000 - \$5,000</b>	48	67	38	9
<b>\$5,000 - \$10,000</b>	2	4	4	0
<b>\$10,000 +</b>	1	1	1	0
<b>Total Lawsuits</b>	<b>198</b>	<b>181</b>	<b>131</b>	<b>49</b>

### Community benefits

By the nature of its tax-exempt status, Phoebe Putney is required to offer to the community some benefit that would offset the amount it receives in tax breaks. This benefit should come in the form of medical care for the area's neediest, such as:

- **Charity care:** Health care services given to a patient who isn't able to pay all their bill – just a portion – and is liable for the amount they agree to pay.
- **Indigent care:** Health care services for self-pay patients who are unable to pay any portion of their bill.
- **Uncompensated care:** Health care services that go uncompensated, regardless of the reason, and which may include charity care, bad debts, and discounts for Medicaid and Medicare.

These terms are often used interchangeably on recent IRS Form 990 filings made by Phoebe Putney Memorial Hospital. Because of this confusing method of accounting, it is difficult to see just how much charity care the hospital believes it offers. For example, on the hospital's audited financials, which were prepared by Draffin & Tucker, the hospital's independent accounting firm, the cost of charity care was reported as only about \$14 million in 2006, though Phoebe reported much higher amounts that year.

Many in Albany rely on some form of public assistance for health care, including PeachCare for Kids, Medicaid and the Indigent Care Trust Fund. Many others are uninsured, and countless are underinsured.

### PeachCare

In 2003, Phoebe Putney was awarded the Foster G. McGaw Prize for excellence in community service. At the time, they were commended for "increasing six-fold the number of children in a nine county area enrolled in state-provided insurance."<sup>iv</sup> PeachCare is Georgia's insurance program for low-income children, jointly supported by the federal and state treasuries. Because of federal funding issues with the State Children's Health Insurance Program (SCHIP), PeachCare has experienced severe budgetary shortfalls, having received several one-time emergency grants in 2007 to keep the program afloat.

**Essentially, in some cases, taxpayer dollars reimburse Phoebe Putney for health care services they provide through PeachCare to children of hospital employees – children that they refuse to cover outright through their own insurance plan.**

Phoebe Putney offers health insurance to family members of employees – at an additional monthly cost to the employee. The hospital also strongly encourages eligible new employees to enroll their children in PeachCare, as evidenced in an enlistment flier placed in each employee handbook.

As the largest health care facility in the area, Phoebe Putney provides a significant amount of health care for southwest Georgia children covered by PeachCare, and receives reimbursement funds from the state, per PeachCare guidelines. In addition,

Phoebe Putney counts its PeachCare for Kids Outreach program towards its “community benefit” obligation as required by the IRS for their tax-exempt status.<sup>v</sup>

### **Affordability & Industry**

Several major manufacturing firms are located in Albany and Dougherty County, including Procter & Gamble and SAB-Miller Brewing. Within the last two years, two other major companies – Bob’s Candies and Cooper Tire – have closed their Albany plants, citing not only cutbacks but also high health care costs.

In 2006, health care costs average about \$7,630 per employee in three key Albany industries, a figure approximately \$1,400 higher than in other parts of the country for these companies. According to the Southern Pricing Expectation, health care as a whole in Albany costs about \$2,850 more than in comparable southern markets. Medical inflation in 2005 was an average 17 percent for those three industries, compared to the national average of 7.6 percent.<sup>vi</sup>

Procter and Gamble’s own research shows that employee health care costs at their Albany plant are 23 percent above the national average, and 31 percent above health care costs in the southeast region. In fact, Procter & Gamble employee health care costs in Albany were almost 62 percent higher than employee costs at their Augusta plant. According to P&G plant manager Trey Bloodworth:

*"It's basically a health care tax to do business in Albany, because the health care costs are so much above the national average and the average for the Southeast."<sup>vii</sup>*

The Coalition for Competitive and Affordable Healthcare, or CACH, claims that Phoebe Putney's pricing practices have a significant impact on the local economy, stifling industry and causing large plants to lose out on profitable projects. But, CACH believes, this high costs does little for the benefit of their workers

*"...We pay way too much, and we get way too little. Despite massive Albany company expenditures by Miller, P&G, and Cooper Tire (\$27.5 million in 2004 alone, excluding dental and prescription drugs), employees still lament the quality of care they receive, the burdensome out-of-pocket expenses, and inadequate coverage."<sup>viii</sup>*

## *Executive Compensation*

Executive compensation at Phoebe Putney is excessive when compared to other tax-exempt nonprofit entities – even those that operate on a much larger scale.

Phoebe Putney CEO Joel Wernick's compensation was \$905,570 during Fiscal Year 2006, according to IRS Form 990 filings. During that year, Mr. Wernick was paid more than the top executives at the following nonprofits:

• Nicholas DeTorrente, CEO of Doctors Without Borders -	\$144,066
• Larry Cox, CEO of Amnesty International -	\$245,491
• Eric Hargis, CEO of the Epilepsy Foundation -	\$360,955
• Cecile Richards, CEO of Planned Parenthood of America -	\$426,062
• Edward A. Powell, CEO of United Service Organization -	\$491,557
• Brian Gallagher, CEO of United Way America -	\$682,490

Compensation for only four executives – Wernick, CFO Kerry Loudermilk, COO Jim Hobson and Medical Director Frank Middleton – totaled approximately 2.5 million in 2006. Since accepting the CEO position at Phoebe Putney, Wernick has received a new automobile every three years, and was given an interest-free loan on his house. And, in the event that Wernick is fired, he will receive 36 months of pay unless he is convicted of a felony.<sup>ix</sup>

But Wernick isn't the only one receiving generous perks. Some payments made by Phoebe Putney for their executives and others include:

- Between July 1999 and April 2004, Phoebe Putney paid approximately \$108,535.46 for 44 corporate hunting trips to various locations throughout Georgia and Florida;
- In June 2002, Phoebe Putney paid approximately \$41,901.84 to Sandestin Golf and Beach Resort;
- In March 2002, Phoebe Putney paid \$64,921.61 to the Ritz Carlton Hotel in Fernandina Beach, Fla., which included more than \$18,000 in room fees, more than \$10,000 in incidentals, approximately \$22,714 in catering, and another \$4,350 in recreation charges; and,
- In October 2001, Phoebe Putney paid \$16,766.12 to Sandestin Golf and Beach Resort, which included two dinners costing just over \$2,500 each, two breakfasts costing \$1,446.53 and \$1,119.82, a boat charter priced at \$1,450, and \$385.20 spent on recreation for children for one day. Among those on the trip were Phoebe Putney executives Jim Hobson, Frank Middleton and Joel Wernick.

In a 2006 deposition, Loudermilk told attorneys<sup>x</sup> that other allowable expenses included:

- Gambling
- Theater tickets
- Tour fees
- Bicycle rentals
- Internet at their houses
- Country club membership
- Alcoholic beverages

- Cigars
- Chartered fishing trips
- Admission to water parks and theme parks
- Child care
- Recreation
- Sight-seeing tours

### **Other Salaries**

From 2003 to 2007, some salaries to Phoebe Putney physicians included:

- Jose Tongol, hematology and oncology physician, totaled \$3,654,469 in salary and compensation between 2003 and 2006;
- Oncologist Robert Krywicki totaled \$1,212,444 in salary and compensation 2003 and 2004;
- Oncologist Phillip Roberts made approximately \$1,165,607 during 2003 and 2004;
- Chirang Jani, oncologist, totaled \$1,912,522 in salary and compensation in 2005 and 2006;
- Anthony Hoots, cardiothoracic surgeon, totaled \$1,601,786 in salary and compensation in 2005 and 2006; an,
- Oncologist Thomas Neal totaled \$1,265,739 in salary and benefits in 2003 and 2004.

Phoebe Putney has provided many low-interest loans to its doctors and executives. CEO Joel Wernick, for example, received a loan of at least \$100,000 the same year Phoebe Putney sued approximately 176 patients for debt amounts ranging from \$100 to \$5,000.<sup>xi</sup> According to its IRS Form 990 filings, between 2002 and 2005 Phoebe Putney extended approximately \$1,074,696 in low-interest loans to a number of key employees.

### ***Phoebe Putney Playing Politics***

Like many large corporations, Phoebe Putney engages in politics. However, they are regulated by strict rules and limits established by the IRS for 501(c)(3) nonprofit organizations.

#### **Lobbying expenses**

From August 1, 2004 to July 31, 2005, Phoebe Putney Health System paid \$387,632 in lobbying expenses to influence federal or state legislation. These expenses included payments to staff or management, and/or grants to other organizations for lobbying purposes. The previous fiscal year, Phoebe Putney reported \$330,211 in lobbying activities. Also, in October 2002 and again in August 2003, Phoebe Health Ventures, a for-profit subsidiary of Phoebe Putney Health System, gave \$10,000 to the Georgia Alliance of Community Hospitals, a membership-based hospital association and lobbying group.

#### **Campaign contributions**

Between 2003 and 2007, Phoebe Putney executives donated \$36,516 to federal and state candidates. The bulk was directed to state candidates, including the 2004 campaign of Michael Spinks, who ran against incumbent Rep. Austin Scott (R-Tifton). That same year, Rep. Scott introduced House Bills 1533 and 1573, which would have allowed self-pay patients to pay the same prices as the average insurance company. Both bills faced considerable opposition from

the Medical Association of Georgia and the Georgia Alliance of Community Hospitals. Neither HB 1533 nor HB 1573 advanced out of the House Health and Human Services committee.

### ***Phoebe Putney - Landowner***

Phoebe Putney is one of Dougherty County's largest property owners, with more than 200 acres owned within the county spanning more than 200 separate addresses. Phoebe's land ownership is nearly seven times that of local competitor Palmyra Medical Center, who owns less than 30 acres.

Phoebe Putney has grown at a rapid pace since becoming a tax-exempt nonprofit hospital – a growth that has been compared to kudzu by some.<sup>xiii</sup> Because Phoebe Putney is a tax-exempt organization, they do not pay property taxes. Thus, Phoebe Putney's continued land acquisition has prompted criticism that their expansion drains taxpayer resources and deprives Dougherty County of much-needed tax revenue.

***"I do not have any true values. I know people have tried to make an educated guess. Obviously, it's a lot of valuable property, and it represents a lot of land that should be taxable. By Georgia law, it is not taxable, so it's a moot point."***  
**- Dougherty County Tax Department Director Denver Collins Hooten<sup>1</sup>**

Furthermore, there is no way to evaluate the value of their property, as it has not been appraised at least since Phoebe Putney received its tax-exempt nonprofit status in 1991.

### ***Conclusion***

Through its high charges to uninsured and underinsured patients and its exorbitant compensation packages to executives, Phoebe Putney has created a crisis of affordable care in one of the country's poorest areas. State lawmakers, hospital representatives, advocacy groups and consumers must work together to help lower health care costs in the Albany area while boosting offerings for its patients.

<sup>i</sup> <http://www.phoebeputney.com>

<sup>ii</sup> National Survey on the Uninsured, Kaiser Family Foundation, April 2000

<sup>iii</sup> Summary of ten Non-profit Hospital Responses, Sept. 12, 2006, <http://finance.senate.gov/press/Gpress/2005/prg091206summary.pdf>. Updated information was not immediately available.

<sup>iv</sup> American Hospital Association

<sup>v</sup> IRS Form 990 for years 2002 and 2003, available at <http://www.guidestar.org>

<sup>vi</sup> From a CACH brochure, 2004. The Coalition of Affordable and Competitive Healthcare is an organization of area industry leaders who cite health care costs in Albany as a barrier to business growth.

<sup>vii</sup> "Albany Industry Says High Health Care Costs Getting Worse," WALB.com, Nov. 15, 2007

<sup>viii</sup> Coalition of Affordable and Competitive Healthcare brochure, 2004

<sup>ix</sup> Nonprofit Hospital Systems: Survey on Executive Compensation Policies and Practices, United States Government Accountability Office, June 2006, <http://www.gao.gov/new.items/d06907r.pdf>

<sup>x</sup> "Phoebe Official Talks of Perks" *Albany Herald*, June 25, 2006

<sup>xi</sup> "Not for Profit Loss," *Pine Magazine*, Oct. 31, 2006

<sup>xii</sup> "Phoebe Among Property Giants," *Albany Herald*, Dec. 27, 2005