EXECUTIVE SUMMARY

Hiring of Nurses Directly by the Commonwealth Health Center Versus Contracting Through Manpower Agencies

Report No. AR-03-06, dated August 19, 2003

Summary

This report presents the Office of the Public Auditor's (OPA) evaluation of nurses provided to the Department of Public Health's Commonwealth Health Center (CHC). The evaluation's objective was to determine whether CHC's practice of using manpower agencies to hire nurses saves the Department of Public Health and the Commonwealth of the Northern Mariana Islands (CNMI) money without compromising patient care. As of December 31, 2002, three manpower agencies had provided CHC with 126 of its 209 nurses and CHC had directly hired the remaining 83 nurses.

OPA found that the hiring of nurses through manpower agencies is less costly than the direct hiring of nurses. However, continuing the current practice of contracting with manpower agencies rather than directly hiring nurses will perpetuate other problems, most notably the difficulty in retaining qualified nurses. More specifically:

- if CHC were to convert the 124 nurses[1] provided by manpower agencies to direct hire status, it would incur an additional estimated $1.5 million annually, or about 37 percent more than it is currently paying manpower agencies.However, assuming that most non-resident direct hires would elect not to be a part of the CNMI's retirement system, the CNMI could substantially reduce this additional cost to about $.7 million by converting all CHC nurses on board to direct hire without retirement benefits. As retirement fund membership is currently mandatory, the CNMI would need to amend legislation to make retirement fund membership optional.

- if CHC were to directly hire National Council Licensure Examination (NCLEX) licensed nurses with five or more years of experience (those at the top of the pay scale), CHC would incur an additional estimated $2.6 million annually, or about 64 percent, more than it is now paying manpower agencies. Likewise, assuming that most non-resident direct hires would elect not to be a part of the CNMI's retirement system, it could substantially reduce this additional cost to about $1.6 million by converting all CHC nurses on board to direct hire without retirement benefits, again provided legislation was amended to make retirement fund membership optional.

Analysis	Assuming Direct Conversion of Current Manpower Nurses	Assuming CHC Hires Nurses with at Least an NCLEX and 5 Years of Experience in Lieu of Current Manpower Nurses
Cost of Direct Hiring	$5,587,311	$6,693,472
Less: Cost of Current Manpower Contracts	4,075,300	4,075,300
Additional Annual Cost to Fund Direct Hires	$1,512,011	$2,618,172
Percentage Increase in Current Costs	37%	64%
Less: Employer's Retirement Contribution Required Under Law	801,757	1,009,457
Adjusted Annual Cost Increase Under Direct Hiring Net of Retirement Contribution	$710,254	$1,608,715

[1] The three manpower agencies had provided 124 nurses to the CHC as of September 30, 2002.

Adjusted Percent Increase in Direct Hiring Cost Without Required Employer's Retirement Contribution	17%	39%

Manpower agencies offer lower salaries and benefits than nurses hired directly by CHC receive, resulting in greater nurse turnover among manpower nurses ,which, according to four of six of CHC doctors interviewed, has adversely impacted patient care. OPA found that direct hire nurses stay in the CNMI for a considerably longer period than do manpower nurses, resulting in less turnover. The average length of employment of direct hire nurses employed by CHC was 108 months while manpower nurses average only 28 months. CHC is constantly being forced to rebuild its nursing staff with inexperienced manpower nurses who arrive to replace those leaving. Most manpower provided nurses use their CNMI job as a stepping stone to the United States (U.S.) and other countries. Data obtained indicates that once nurses obtain the NCLEX certification needed to practice in the U.S., most seek jobs elsewhere because their current salaries are not competitive with compensation they can obtain elsewhere.

OPA found that many manpower provided nurses would likely stay at CHC if they were paid pay and benefits comparable to direct hire nurses; likewise many former manpower nurses, now in the U.S., would possibly return to the CNMI. More specifically, over 90 percent of the manpower nurses interviewed stated that they would remain at CHC if they were converted to direct hire status with appropriate salary increases and a benefits package similar to that provided to direct hires.

While there are no easy answers, it appears that the direct hiring of non-resident nurses would allow CHC to retain nurses and thereby help improve patient care. Although the CNMI continues to face a fiscal crisis, it cannot afford to let the health care system deteriorate. In the end, nursing experience and continuity in service, and their impact on patient care, cannot be discounted when analyzing the costs of conversion. However, because the present environment of financial austerity cannot be ignored, one solution may be to convert back to direct hire of nurses over a period of time.

The Acting Secretary of Public Health had no comments on this report other than to state that this issue was of great importance to the department and the community as a whole.

Two of the three manpower agencies, however, provided comments. One agency advised that the Department of Public Health needed to find a compromise solution to resolve disparities and inequities at hand. It contended that CHC would have difficulty in retaining qualified nurses even if it hired them directly and if they were equally compensated. The other agency stated that more than a small pay increase was needed if CHC wanted to hire and retain qualified nurses. Further, the agency stated that CHC could improve its patient care if it improved its communication and relations with manpower companies.

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Office of the Public Auditor
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Department of Public Health
Hiring of Nurses Directly by the Commonwealth Health Center Versus Contracting Through Manpower Agencies

Audit Report
AR-03-06

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August 19, 2003

Dr. James U. Hofschneider
Secretary of Public Health
P.O. Box 500409 CK
Saipan, MP 96950

Dear Dr. Hofschneider:

Subject: Hiring of Nurses Directly by the Commonwealth Health Center Versus Contracting Through Manpower Agencies (Report No. AR-03-06)

On August 19, 2002, you requested the Office of the Public Auditor (OPA) to determine whether the Commonwealth Health Center's (CHC)[1] practice of contracting with manpower agencies for nurses saves the Department of Public Health (DPH) and the Commonwealth of the Northern Mariana Islands (CNMI) money without compromising patient care. For the last eight years such agencies have provided CHC with a large portion of its nursing staff.

BACKGROUND

In 1995, the Department of Public Health entered into contracts with four manpower agencies to provide a portion of CHC's nursing staff. Such contracts were considered necessary due to the anticipated departure of non-U.S. citizen nurses dictated by Public Law 7-45. The sunset provision in Public Law 7-45 allowing DPH and other agencies to employ non-resident workers was due to expire on September 30, 1995.

DPH has contracts with three agencies to provide nurses for CHC: Paras Enterprises (Paras), Saipan Employment Agency Services Inc., (SEAS), and Marianas Health Services (MHS). As of December 31, 2002, these three agencies were providing CHC with 126 nurses as follows: Paras - 59, SEAS - 63, and MHS - 4. At that time, CHC had 83 other nurses on board that it had hired directly.

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[1] CHC is the Commonwealth of the Northern Mariana Islands' primary health facility under the Department of Public Health. In this report, OPA refers to CHC as the contracting entity for nurses, although technically the Department of Public Health contracts for nurses.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of OPA's review was to determine whether CHC's practice of using manpower agencies to hire nurses saves the DPH and the CNMI money without compromising patient care. To determine the least costly source of nurses, we conducted cost analyses using both manpower contract and direct hire data.

In our analyses we annualized all computations and estimates and relied on, as necessary, previous cost analyses. We interviewed DPH officials, manpower agency personnel and officials, as well as CHC doctors, unit managers, nurses and other CNMI officials as to the impact, if any, on patient care resulting from the use of manpower-provided nurses. We reviewed and compared retention rates for manpower agency nurses and direct hire nurses in the same or similar positions. We obtained data from doctors and unit managers indicating the training that CHC needed to provide to manpower versus direct hire nurses. We examined the effect of nurses passing the National Council Licensure Examination[2] (NCLEX) and CHC's ability to retain these certified nurses. Finally, we compared the quality of nursing staff being provided by manpower agencies with that of CHC direct-hire nurses by reviewing: (1) the type of nursing degree obtained, (2) years of nursing service, and (3) credentials received (such as NCLEX or other certificates).

We conducted our review at DPH's office in Saipan from August to December 2002. This review was performed, where applicable, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures as were considered necessary in the circumstances. Due to the limited scope of our review, we did not evaluate any other internal controls.

[2] The National Council Licensure Examination (NCLEX), developed by the National Council of State Boards of Nursing, is a national nurse licensure examination required in the United States and its territories for licensure. This examination, although offered in the CNMI, is not a requirement for licensure in the CNMI.

RESULTS OF REVIEW

OPA found that the hiring of nurses through manpower agencies is less expensive than the direct hiring of nurses. However, continuing the current practice of contracting with manpower agencies, rather than directly hiring nurses, will perpetuate other problems, most notably the difficulty in retaining qualified nurses. Manpower provided nurses do not receive pay and fringe benefits (i.e. retirement benefits, housing, night differential, holiday pay, sick leave, annual leave, and health insurance) equal to their direct hire counterparts. In the end, the higher turnover among manpower provided nurses and their resulting replacement with less experienced nurses potentially adversely affects the quality of patient care provided.

Direct Hiring of Nurses Will Result in Greater Costs

According to CHC,[3] 124 manpower nurse positions in DPH contracts with manpower agencies scheduled to end on September 30, 2002[4] could ultimately be replaced by direct hire nurses. We conducted two analyses, one which assumed conversion of all current manpower nurses to direct hire, and another which assumed that CHC would only hire NCLEX licensed nurses with at least five years of experience. OPA found that:

- if CHC were to convert the 124 nurses provided by manpower agencies to direct hire status, it would incur an additional $1,512,011 annually over what it is currently paying manpower agencies[5]. This represents about 37 percent more than the contract amount[6]. See **Appendix A** for low-end analysis.

- if CHC were to directly hire NCLEX licensed nurses having five or more years of experience (those considered at the top of the pay scale), CHC would incur an additional $2,618,172 annually, or about 64 percent, more than the base contract cost it is now paying manpower agencies. See **Appendix B** for high-end analysis.

The additional costs associated with direct hiring of nurses are due largely to personnel benefits, many of which manpower agencies do not provide. Under the low-end analysis, total annual personnel benefits amount to 43 percent of total costs whereas under the high-end analysis they amount to 40 percent of such costs. See **Appendices A and B** for total annual total personnel benefit costs under both analyses.

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[3] As per a list provided by CHC's Nursing Services Section.

[4] In July 2002, DPH published a request for proposal (RFP02-CHC-0092) to extend the services of manpower agencies beyond September 30, 2002. These manpower service contracts were subsequently extended.

[5] This does not consider taking in new applicants who have NCLEX certification and additional years of experience.

[6] Base contract cost means the basic rate the manpower agency charge for each category of nurses, and does not include any additional cost that may be charged such as overtime pay.

Assuming that most non-resident direct hire nurses would elect not to be a part of the CNMI's retirement system, the CNMI could substantially reduce the additional costs associated with direct hiring by making CNMI retirement participation optional for prospective non-resident direct hire nurses. If the non-resident direct hire nurses elected not to participate, the estimated additional costs would be:

- $710,254, assuming conversion of all CHC nurses on board to direct hire (see **Appendix C** for low-end analysis), or

- $1,608,715, assuming that CHC hired only NCLEX licensed nurses having at least five years of experience. (See **Appendix D** for high-end analysis.)

As participation is currently mandatory, the CNMI would need to amend the law to make CNMI Retirement Fund membership optional for the nurses.

A comparison of the additional costs associated with direct hiring under each of OPA's two assumptions, namely the direct conversion of the current manpower nurses and hiring only nurses having a NCLEX certification and 5 years of experience follows:

Analysis	Assuming Direct Conversion of Current Manpower Nurses	Assuming CHC Hires Nurses with at Least an NCLEX and 5 Years of Experience in Lieu of Current Manpower Nurses
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OPA's analyses above do not factor in the additional cost of overtime that manpower agency provided nurses receive as OPA was unable to determine whether such overtime resulted from any periodic shortage of nurses or from the need to cover nurses on annual and sick leave, medical emergencies, holidays, or training.

OPA assumed that more experienced direct hire nurses would cost more, but that they would also increase the quality of patient care for patients presented for treatment. OPA further assumed that the staff turnover rate for nurses provided by the manpower agencies would decrease if the nurses were direct hires, thereby reducing the training necessary for new nurses. Finally, OPA assumed that greater continuity of nurses associated with prolonged nurse employment would also increase the quality of patient care.

The limited scope of this review did not allow OPA to ascertain the related costs of training new nurses. In addition, OPA did not analyze whether more experienced nurses, with longevity at CHC, might enable CHC to provide improved patient care with less individuals on its nursing staff.

Manpower Nurses May Negatively Affect the Quality of Patient Care at CHC

1. CHC Faces Difficulty in Attracting and Retaining Qualified Nurses

CHC has had difficulty in attracting and retaining trained and qualified nurses. Much of CHC's hiring of nurses is done by manpower agencies rather than directly by CHC. These agencies offer lower salaries and benefits to nurses than CHC provides to nurses hired directly. Based on information obtained, it appears that CHC retains a relatively low percentage of the manpower agency provided nurses because most manpower nurses use their CNMI employment as a means of moving to the United States (U.S.) and elsewhere. Data obtained also indicates that once nurses obtain the NCLEX certification needed to practice in the U.S., most seek jobs outside of the CNMI because their current salaries are not competitive with compensation they can obtain elsewhere.

OPA found that direct hire nurses stay in the CNMI for a considerably longer period than do manpower nurses, resulting in less turnover. As of December 31, 2002, CHC employed 209 nurses, namely 126 manpower hire nurses and 83 direct hire nurses. The direct hire nurses had been employed by CHC for an average of 108 months, or approximately 9 years, while the manpower nurses averaged only 28 months, or just over two years. Turnover among manpower nurses is much higher than among direct hire nurses.

The two largest providers of manpower nurses, Paras and SEAS, have retained a very low percentage of NCLEX certified nurses.

- Most Paras agency nurses who have passed the NCLEX have left the CNMI after a two-year stay in the CNMI. To illustrate as of December 31, 2002, 37 of the 145 nurses that Paras provided had previously passed the NCLEX before being hired.
    - However, of the 37, 23 resigned within two years of being detailed at CHC and only 14 remain at CHC.
    - An additional 46 passed the NCLEX after being hired, 35 of which resigned after

less than two years at CHC, leaving only 11 at CHC.

- Thus, of 83 Paras nurses who had passed the NCLEX , 58 nurses or about 70 percent left after an average two-year stay, and only 25 nurses or about 30 percent opted to stay longer.

- Likewise, most SEAS nurses who passed the NCLEX left after a two-year stay. SEAS had provided 146 nurses to the CHC as of December 31, 2002, 27 of whom had passed the NCLEX prior to being hired. However, 20 of the 27 left after working an average of a year and a half. An additional 23 nurses hired by SEAS passed the NCLEX after being detailed to CHC, but only 7 remained after a year and a half. Thus, of 50 nurses who passed the NCLEX, 36 nurses, or about 72 percent, left after less than 2 years.

- Of the remaining 122 manpower nurses (59 Paras nurses and 63 SEAS nurses) still employed at CHC, only 39 nurses, or about 32 percent, had passed the NCLEX.

According to seven of eight unit managers and five of six doctors interviewed, CHC expends considerable resources in training a nurse, particularly manpower provided nurses most of whom come from the Philippines. According to three of eight unit managers and all doctors interviewed, most nurses recruited by the manpower agencies lack independence, assertiveness, and experience. As such, they believe that those nurses need additional training not normally required of U.S. trained nurses. Five of six doctors and seven of eight unit managers advised us that while basic orientation for new nurse hires at CHC lasts two weeks, it may take over a year of training before doctors feel comfortable leaving a manpower nurse with patients.

According to most manpower nurses interviewed, many would likely stay at CHC and many former manpower nurses now working in the U.S. would possibly return if they were paid pay and benefits comparable to direct hire nurses. More specifically, over 90 percent of the manpower nurses interviewed stated that they would remain at CHC if they were converted to direct hire status with appropriate salary increases and a benefits package similar to that provided to direct hires. The nurses cited other reasons for remaining in the CNMI including: (1) the CNMI's close proximity to the Philippines, (2) the CNMI's climate and culture, and (3) the strong Filipino community in the CNMI. Also, nurses who have maintained contact with former co-workers presently employed in the U.S. indicated that many of those nurses have expressed a willingness to return to the CNMI if, and only if, the conversion to direct hire status was implemented. Those nurses would likely return for the same reasons that the current nurses would like to stay. Further, if those nurses did return as direct hire nurses at CHC, they would bring with them the experience they have gained working in U.S. hospitals.

Four of the six doctors interviewed stated that the quality of nurses provided by the manpower agencies had adversely affected patient care. For example, those nurses frequently fail to recognize critical situations, and cannot always properly read patients' vital signs. OPA's review of incidents occurring during the eight months ending August 29, 2002 substantiates this position. OPA found 42 reported incidents involving manpower nurses and 6 reported incidents involving direct hire

nurses even though the average number of manpower nurses was about 50 percent higher[7] than direct hire nurses.

- The 42 incidents involving ***manpower nurses*** ranged from communication problems to procedural errors. The nine communication problems reported were primarily conflicts between patients/families and nursing staff, resulting in patient anxiety and frustration. The 33 procedural incidents reported included:

    - six documentation errors and/or failure to order lab work;
    - one delay for an intensive care patient admitted for a possible heart attack;
    - eight self-inflicted needle sticks;
    - six medication errors;
    - seven patient falls, three of which were a direct result of poor judgment on the part of the attending nurse;
    - two involving improperly administered medication to emergency unit patients who were subsequently discharged without a reassessment and then collapsed while leaving the hospital;
    - a patient being fed just prior to a procedure, causing a 24 hour delay in the treatment; and
    - two miscellaneous incidents in the emergency unit; one involved a patient being discharged before being cleared by the doctor resulting in the patient needing to be contacted at home, requested to return, and be admitted to the hospital for cardiac problems; and one involved a psychiatric patient who walked out of the emergency unit unattended resulting in the need to contact the police/security in order to locate and return the patient to the hospital.

- The six incidents involving ***direct hire nurses*** included,

    - three communication problems,
    - one medication error,
    - one patient fall, and
    - one provision of questionable care by a midwife during infant delivery.

In addition, four of six doctors and four of eight unit nurse managers interviewed felt that in some instances CHC had retained manpower nurses who were marginal or who had performed poorly. However, they also advised that, given the shortage of nurses and the time to train new hires, it might be better to retain the current staff than to request manpower agencies to provide new nurses. They explained that hasty recruitment could result in less qualified replacements who would not provide the needed performance.

Four of six doctors and three of eight unit nurse managers indicated that once the less experienced manpower nurses were trained, they performed at a level equal to direct hire nurses. However,

[7] As of December 31, 2002, CHC employed 126 manpower hire nurses and 83 direct hire nurses or about 50 percent more manpower nurses than direct hire nurses.

after being trained (as indicated by the statistics above), those nurses are more likely to leave for higher paying jobs in the U.S. Thus, instead of building a foundation of experienced high quality nursing staff, CHC is forced to accept new entry level nurses provided by manpower agencies to replace those who have departed.

See **Appendix E** for a summary of doctors and unit managers responses to the OPA interview questions.

2. Disparity in Compensation Between Direct Hire and Manpower Nurses

Nurses provided by manpower agencies receive a compensation package considerably lower than their direct hire counterparts who receive housing, annual and sick leave, holiday pay, and medical benefits. As such, most of the manpower nurses elect to leave CHC as soon as they pass the NCLEX, resulting in a high turnover of manpower nurses. CHC is then left with less experienced manpower nurses and new manpower replacements who need to be trained.

Manpower agency nurses receive an average salary of $19,298, a third less than the $27,948 their direct hire co-workers receive on the same work assignments. Furthermore, even though manpower agency nurses have learned new skills and taken on more responsibility, they have received little or no pay raises during the last 7 years. In addition, some manpower nurses have been required to pay a recruiting fee amounting to about $1,500, the equivalent of one month's salary. While direct hire nurses receive night differential, manpower nurses do not.

Other fringe benefits such as housing, annual leave, sick leave, medical, and holiday pay provided to manpower nurses do not compare with the benefits their direct hire counterparts receive. To illustrate:

- Housing is, for the most part, provided to manpower nurses in the form of two or more bedroom apartments with two nurses to a bedroom with all occupants sharing a living area, kitchen, and one bathroom. More specifically, sometimes up to 12 nurses lived in a six bedroom apartment with two nurses to a bedroom and with all 12 sharing two bathrooms, a kitchen, and a living room.

- In other cases, the manpower nurses live in a dormitory type arrangement where each room has an adjoining bathroom shared by the occupant in the next room. In these instances, a kitchen and TV room are shared by all occupants.

While the housing is tolerable, it falls short of the housing that off-island direct hire nurses can afford based on the housing allowance they receive, which is $600 per month for those without dependents and $800 per month for those with dependents.

In addition, while utilities are normally included as part of the housing provided to manpower nurses, 60 SEAS provided nurses advised OPA and CHC that their manpower agency had attempted to amend their contracts to require them to pay for utilities. More specifically, SEAS manpower nurses sent a letter, dated August 13, 2002 signed by all its nurses, to the Secretary of

Health alleging that the cost of their electrical bills was soon to be deducted from their salaries. SEAS justified changes in the proposed amendment that would transfer the burden of paying for utilities to nurses as follows: (1) employment contracts allowed for such a charge; (2) the agency needed to cut costs due to the economic crisis; and (3) employees had abused the use of electricity. The nurses stated in their letter that had they not signed the amended contracts, they would be faced with the possibility of not receiving their paychecks, having their employment papers put on hold until they signed the amended contracts, or a refusal to process entry permits. Although the manpower nurses reluctantly signed the amended contracts, SEAS had not deducted utility costs from the nurses paychecks.

Manpower nurses receive four holidays a year whereas their direct hire counterparts receive 14. They receive a two-week vacation whereas direct hire nurses receive up to five weeks. According to the nurses, leave is approved only after one year of service under new contracts. In addition, as manpower agencies incur overtime costs when staff are on vacation, leave requests were frequently not granted.

See **Appendix F** for a summary manpower nurse responses to interview questions.

Other Matters - Inadequate Number of Nurses

According to the December 2002 Nursing Level Statistics prepared by the acting director of nursing, CHC has filled 226 nurse positions and needs to fill an additional 64. As limited funding limits the number of nurse personnel, CHC has a nurse-to-patient ratio of one nurse to every five to six patients, and sometimes as many as seven patients. A national media publication has, in a number of articles, cited studies that show the correlation between nurse staffing and patient health.

- A recent study in the Journal of the American Medical Association confirmed the risks to patients cared for by overburdened nurses. This study, which covered more than 200,000 surgical patients and 10,000 nurses, documented the link between nurse staffing and increased risk of patients dying after surgery, as well as with increased nurse burnout and job dissatisfaction. The study found that when nurse caseloads exceeded four patients, the risk of a patient's dying increases by about 7 percent for each additional patient. More specifically, if one nurse is caring for eight patients, the patients are 31 percent more likely to die. In addition, each patient added to a nurse's caseload increased the nurse's job dissatisfaction and the likelihood that "burnout" will push them out of nursing.

- Another recent study reportedly found that fewer nurses meant that patients suffered more frequently from urinary tract infections, falls, and bedsores, and contracted pneumonia more often.

- In August 2002, the Joint Commission on the Accreditation of Health Care Organizations reportedly found that inadequate nurse staffing levels contributed to nearly one-quarter of the 1,609 cases of accidental injury or death documented for hospitalized patients since 1997.

CONCLUSION

Our review shows that, although it would be substantially more costly to replace all manpower nurses with direct hire nurses, to continue the current practice of contracting with manpower agencies will perpetuate other problems, most notably the difficulty in retaining qualified nurses. Relatively lower pay and fringe benefits provided to manpower nurses have resulted in high turnover which has adversely impacted patient care. CHC is constantly being forced to rebuild its nursing staff with inexperienced manpower nurses who arrive to replace those leaving.

While there are no easy answers, it appears that the direct hiring of non-resident nurses would allow CHC to retain nurses and thereby help improve patient care. Although the CNMI continues to face a fiscal crisis, it cannot afford to let the health care system deteriorate. In the end, nursing experience and continuity in service, and their impact on patient care, cannot be discounted when analyzing the costs of conversion. However, because the present environment of financial austerity cannot be ignored, one solution may be to convert back to direct hire of nurses over a period of time.

COMMENTS

In a letter dated July 16, 2003 **(Appendix G),** the Acting Secretary of Public Health indicated he had no comments on our report other than to state that the issue covered was of great importance to the department and the community as a whole.

Saipan Employment Agency Services, Inc. (SEAS) Comments on OPA's Draft Report

In a letter dated July 07, 2003 **(Appendix H),** the President of Saipan Employment Agency Services Inc. (SEAS) acknowledged the difficulty of retaining CHC nurses, and agreed that given the CNMI government's financial situation, OPA's suggestion for a compromise solution is a step in the right direction. He suggested that revisions or changes in the contract terms and conditions between the agencies and CHC could resolve disparities and inequities on the issue at hand and thereby meet the goals and objectives of all the parties concerned.

He contends that CHC will continue to encounter difficulty in retaining qualified nurses even if it hires them directly. He further contends that CHC mandates the pay and benefits that manpower nurses receive, and an increase in such pay and benefits alone would not decrease high turnover because nurses are attracted by permanent residency status obtained in the U.S. and Europe. He said that SEAS manpower nurses would provide him no assurance they would remain in the CNMI even if equally compensated. However, he contends that most direct hire nurses would stay in Saipan given that they are from the CNMI or Micronesia. Also, the CHC Personnel Office has final approval authority over manpower agency hires, and can require a manpower agency to replace a nurse at no cost if CHC is not satisfied with the nurse hired.

OPA Response

Although the CNMI does not offer salaries and benefits equivalent to those in the U.S. and in Europe, OPA's analyses show that directly hiring nurses at a rate competitive with other jurisdictions would entice more qualified nurses to remain in the CNMI. While the CNMI may be unable to give nurses U.S. resident status, it allows those that meet the requirements of 3 CMC§4437(i) and (o) to relocated immediate family members to the CNMI.

OPA disagrees with SEAS's statement that CHC mandates the pay and benefits that manpower nurses receive. Salaries set forth in the Request for Proposal are only a guideline for prospective agencies, and the benefits required are those minimally required under the Non-resident Worker's Act. While CHC has final approval over nurses hired it is, according to CHC, reluctant to dismiss a nurse given the training already provided and the fear that replacements may not be adequate.

Paras Enterprises Comments on OPA's Draft Report

In a letter dated July 08, 2003 **(Appendix I)**, the Vice President for Operations of Paras indicated that OPA had not adequately demonstrated that the direct hiring of nurses would help improve patient care. He said CHC needs to provide nurses with more than a slight pay increase if it is to hire and retain qualified nurses. Further, he contends that OPA had not addressed the hidden costs associated with directly hiring non-resident workers, such as the recruitment fees, airfare, and NCLEX training incurred for replacement when NCLEX nurses are lured away to new jobs. In discussing high turnover, he said that while most direct hire nurses have family and cultural ties in Saipan, manpower nurses lack such attachment, and many come to Saipan to take the NCLEX and then move on to the U.S. after passing the exam to obtain a higher salary and longer contracts.

He believes manpower nurses could provide improved patient care if CHC would improve its relations with manpower companies. He stated that poor communications between the DPH administration and manpower agencies is causing stress and fear among many manpower nurses, and that although DPH had recently initiated efforts to directly hire nurses, it has failed to provide any plan or time line for phasing out the manpower agency provided nurses.

OPA Response

CHC pays manpower agencies an established amount for each category of nurse provided. To compare the cost of direct hiring of nurses, OPA attempted to identify all costs associated with hiring of a nurse, i.e. air fare, housing, salary, benefits etc., and compared the total of these costs with what CHC pays manpower agencies. OPA was, however, unable to calculate administrative costs, such as the cost to recruit nurses because of the difficulty of quantifying such cost, but agree that this may be an added cost involved in direct hiring.

While Paras claims that manpower nurses, unlike direct hires, have a strong desire to go to the U.S., our interviews with manpower nurses indicated many had strong ties to the community here and would give consideration to remaining in the CNMI if given equal treatment with direct hire nurses. While Paras also claims that nurses leave because of greater job security in the mainland, OPA must point out that given the shortage of nurses in the CNMI, job security should not be a factor if nurses are performing satisfactorily.

Sincerely,

Michael S. Sablan, CPA
Public Auditor

cc: Governor
Lt. Governor
President of the Senate
Speaker of the House
Attorney General
Special Assistant for Management and Budget
Secretary of Finance
President, Paras Enterprises Saipan, Inc. (Paras)
Vice President, Saipan Employment Agency and Services, Inc. (SEAS)
Administrator, Marianas Health Services (MHS)
Press

Cost Comparison - Conversion of Direct Hire vs Contracting Through Manpower Agencies

Low-end Cost Analysis: Assuming Nurses Provided by Manpower Agencies Will be Converted to Direct Hire Status at Salary & Fringe Benefit Rates Applicable to Their Current Credentials

Position	Annual Rates of Salary or Service Cost	Hourly Rate	No. of Current Positions	Annualized Salary or Service Cost	Estimated Annual Cost of Night Differential (Note 1)	Total Annual Compensation or Service Cost	Annualized Cost of Air Fare $270/yr. (Note 2)	Annualized Shipment Cost of Household Goods $1,953.78/yr. (Note 2)	Health & Life Insurance Cost Based on Current Rate (4%)	Annual Retirement Contribution Cost Based on Current Rate (24%)	Annual Housing Benefit Cost of $700/mo. (Note 3)	Estimated Yearly Cost for Cashing Accumulated Annual Leave (Note 4)	Total Annual Personnel Benefit Cost	Total Annual Cost
DIRECT HIRE - Estimated cost based on anticipated rates of salary and benefits to be paid														
BSN NCLEX 0-1 Yrs. Exp.	$26,131	$12.56	83	$2,168,905	$108,445	$2,277,351	$22,410	$162,164	$91,094	$572,584	$697,200	$108,418	$1,653,870	$3,931,221
BSN NCLEX 1-2 Yrs. Exp.	27,437	13.19	7	192,062	9,603	201,665	1,890	13,676	8,067	50,704	58,800	9,602	142,740	344,405
BSN NCLEX 2-3 Yrs. Exp.	28,808	13.85	5	144,038	7,202	151,239	1,350	9,769	6,050	38,026	42,000	7,202	104,396	255,636
LPN 0-1 Yrs. Exp.	19,511	9.38	14	273,160	13,658	286,818	3,780	27,353	11,473	72,114	117,600	13,657	245,977	532,796
LPN 1-2 Yrs. Exp.	20,485	9.85	2	40,969	2,048	43,017	540	3,908	1,721	10,816	16,800	2,049	35,833	78,850
LPN 2-3 Yrs. Exp.	21,506	10.34	5	107,532	5,377	112,909	1,350	9,769	4,516	28,389	42,000	5,377	91,401	204,309
Hemodialysis Technician 0-1 Yrs. Exp.	13,704	6.59	6	82,222	4,111	86,333	1,620	11,723	3,453	21,707	50,400	4,112	93,015	179,348
Hemodialysis Technician 1-2 Yrs. Exp.	14,389	6.92	1	14,389	719	15,108	270	1,954	604	3,799	8,400	720	15,746	30,855
Operating Rm Technician 0-1 Yrs. Exp.	13,704	6.59	1	13,704	685	14,389	270	1,954	576	3,618	8,400	685	15,502	29,891
TOTALS			**124**		**$151,849**	**$3,188,830**	**$33,480**	**$242,269**	**$127,553**	**$801,757**	**$1,041,600**	**$151,822**	**$2,398,481**	**$5,587,311**
MANPOWER HIRING - Estimated cost computed pursuant to base rates provided in the contract														
Registered Nurse (RN)	$34,500	$16.59	95	$3,277,500	NA	$3,277,500	NA	NA	NA	NA	NA	NA	NA	$3,277,500
License Practical Nurse (LPN)	29,000	13.94	21	609,000	NA	609,000.00	NA	NA	NA	NA	NA	NA	NA	609,000.00
Hemodialysis Technician	23,600	11.35	7	165,200	NA	165,200.00	NA	NA	NA	NA	NA	NA	NA	165,200.00
Operating Room Technician	23,600	11.35	1	23,600	NA	23,600.00	NA	NA	NA	NA	NA	NA	NA	23,600.00
TOTALS			**124**	**$4,075,300**	NA	**$4,075,300**	NA	NA	NA	NA	NA	NA	NA	**$4,075,300**

NA- not applicanble

Estimated Additional Cost to Convert Current Manpower Agency Nurses to Direct Hire **$1,512,011**
Estimated Additional Cost to Convert Current Manpower Agency Nurses to Direct Hire as a Percentage of Manpower Hiring Costs ($1,512,011 / $4,075,300) **37%**

Actual Service Cost Paid to Manpower Agencies in FY 2001 **$4,253,138**
Estimated additional Cost as a Percentage of FY 2001 Actual Service Cost ($1,512,011 / $4,253,138) **36%**

Note 1 - To factor in night differential, the analysis assumes that certain positions will be assigned and be earning night differential for 1/3 of of the total available hours per year.
Note 2 - To factor in air transportatation & shipment of household effects (Recruitment/Repatriation Costs), the analysis assumed the following:
a. A direct hire nurse will most likely stay for an average of 5 years therefore recruitment/repatriation costs can be spread over a 5-year period.
b. As most of the current manpower hired nurses are from the Philippines, air transportation and shipping rates applicable to that destination were used .
c. To factor in possible additional air-fare cost for dependents, the analysis assumes that 50% of hirees have no dependents and 50% have at least one dependent.
Note 3 - To factor in housing benefits which vary based on the status of the employee, the analysis also assumes that half of the hirees will have dependents and half will have none.
Note 4 - To factor in cost of accumulated annual leave hours, the analysis assumes that half of (104 hrs.) of annual leave hours accrued will be used while half would be converted to cash.

Cost Comparison - Conversion of Direct Hire vs Contracting Through Manpower Agencies

High-end Cost Analysis: Assuming That Only Nurses Who Passed the NCLEX & with 5 Yrs. of Experience Will be Hired

Position	Annual Rates of Salary or Service Cost	Hourly Rate	No. of Current Positions	Annualized Salary or Service Cost	Estimated Annual Cost of Night Differential (Note 1)	Total Annual Compensation or Service Cost	Annualized Cost of Air Fare @ $270/yr (Note2)	Annualized Shipment Cost of Household Goods @ $1, 953.78/yr (Note 2)	Health & Life Insurance Cost Based on Current Rate (4%)	Annual Retiremment Contribution Cost Based on Current Rate (24%)	Annual Housing Benefit Cost of $700/mo. (Note 3)	Estimated Yearly Cost for Cashing Accumulated Annual Leave (Note 4)	Total Annual Personnel Benefit Cost	Total Annual Cost
DIRECT HIRE - Estimated cost based on anticipated rates of salary and benefits to be paid														
BSN NCLEX 5+ Yrs. Exp.	$33,345	$16.03	95	$3,167,815	$158,391	$3,326,206	$25,650	$185,609	$133,048	$836,300	$798,000	$158,376	$2,136,983	$5,463,189
LPN 5+ Yrs. Exp.	24,889	11.97	21	522,676	26,134	548,810	5,670	41,029	21,952	137,989	176,400	26,142	409,183	957,993
Hemodialysis Technician 5+ Yrs. Exp.	16,652	8.01	7	116,561	5,828	122,389	1,890	13,676	4,896	30,773	58,800	5,831	115,866	238,255
OR Technician 5+ Yrs. Exp.	16,651	8.01	1	16,651	833	17,484	270	1,954	699	4,396	8,400	833	16,552	34,036
TOTALS			**124**	**$3,823,703**	**$191,185**	**$4,014,888**	**$33,480**	**$242,269**	**$160,596**	**$1,009,457**	**$1,041,600**	**$191,183**	**$2,678,585**	**$6,693,472**
MANPOWER HIRING - Estimated cost computed pursuant to base rates provided in the contract (Note 5)														
Regitered Nurse (RN)	$34,500	$16.59	95	$3,277,500	NA	$3,277,500	NA	NA	NA	NA	NA	NA	NA	$3,277,500
License Practical Nurse (LPN)	29,000.00	13.94	21	609,000	NA	609,000	NA	NA	NA	NA	NA	NA	NA	609,000
Hemodialysis Technician	23,600.00	11.35	7	165,200	NA	165,200	NA	NA	NA	NA	NA	NA	NA	165,200
Operating Room Technician	23,600.00	11.35	1	23,600	NA	23,600	NA	NA	NA	NA	NA	NA	NA	23,600
TOTALS			**124**	**$4,075,300**	NA	**$4,075,300**	NA	NA	NA	NA	NA	NA	NA	**$4,075,300**

NA- not applicanble

Estimated Additional Cost to Convert Current Manpower Agency Nurses to Direct Hire **$2,618,172**
Estimated Additional Cost to Convert Current Manpower Agency Nurses to Direct Hire as a Percentage of Manpower Hiring Costs ($2,618,172/$4,075,300) **64%**

Actual Service Cost Paid to Manpower Agencies in FY 2001 **$4,253,138**
Estimated additional Cost as a Percentage of FY 2001 Actual Service Cost ($2,618,172/$4,253,138) **62%**

Note 1 - To factor in night differential, the analysis assumes that certain positions will be assigned and be earning night differential for 1/3 of of the total available hours per year.
Note 2 - To factor in air transportatation & shipment of household effects (Recruitment/Repatriation Costs), the analysis assumed the following:
a. A direct hire nurse will most likely stay for an average of 5 years therefore recruitment/repatriation costs can be spread over a 5-year period.
b. As most of the current manpower hired nurses are from the Philippines, air transportation and shipping rates applicable to that destination were used .
c. To factor in possible additional air-fare cost for dependents, the analysis assumes that 50% of hires have no dependents and 50% have at least one dependent.
Note 3 - To factor in housing benefits which vary based on the status of the employee, the analysis also assumes that half of the hirees will have dependents and half will have none.
Note 4 - To factor in cost of accumulated annual leave hours, the analysis assumes that half of (104 hrs.) of annual leave hours accrued will be used while half would be converted to cash.
Note 5 - Most of the manpower nurses provided under the current contracts do not have NCLEX and five years of experience.

Comparison of Cost - Direct Hire vs Contracting Manpower Agencies

Low-End Cost Analysis: Conversion of Nurses at Compensation Rates Applicable to Their Current Credentials Assuming They Would Elect Not to be a Part of the CNMI Retirement System

Position	Total Annual Compensation or Service Cost	Total Annual Cost of Personnel Benefit	Total Annual Cost	Annual Retirement Contribution Cost	Total Annual Cost Without the Annual Cost of Retirement Contribution
DIRECT HIRE - Estimated cost based on anticipated rates of salary and benefits to be paid					
BSN NCLEX 0-1 Yrs. Exp.	$2,277,351	$1,653,870	$3,931,221	$572,584	$3,358,636
BSN NCLEX 1-2 Yrs. Exp.	201,665	142,740	344,405	50,704	293,701
BSN NCLEX 2-3 Yrs. Exp.	151,239	104,396	255,636	38,026	217,610
LPN 0-1 Yrs. Exp.	286,818	245,977	532,796	72,114	460,681
LPN 1-2 Yrs. Exp.	43,017	35,833	78,850	10,816	68,035
LPN 2-3 Yrs. Exp.	112,909	91,401	204,309	28,389	175,921
Hemodialysis Technician 0-1 Yrs. Exp.	86,333	93,015	179,348	21,707	157,641
Hemodialysis Technician 1-2 Yrs. Exp.	15,108	15,746	30,855	3,799	27,056
Operating Rm Technician 0-1 Yrs. Exp.	14,389	15,502	29,891	3,618	26,274
TOTALS	**$3,188,830**	**$2,398,481**	**$5,587,311**	**$801,757**	**$4,785,554**
MANPOWER HIRING - Estimated cost computed pursuant to base rates provided in the contract					
Regitered Nurse (RN)	$3,277,500	NA	$3,277,500	NA	$3,277,500
License Practical Nurse (LPN)	609,000	NA	609,000	NA	609,000
Hemodialysis Technician	165,200	NA	165,200	NA	165,200
Operating Room Technician	23,600	NA	23,600	NA	23,600
TOTALS	**$4,075,300**	NA	**$4,075,300**	NA	**$4,075,300**

NA- not applicanble

	Cost With Retirement	Cost Without Retirement
Estimated Additional Cost to Convert Manpower Agency Nurses to Direct Hire	$1,512,011	$710,254
Estimated Additional Cost as a Percentage of Manpower Hiring Costs	37% [1]	17% [3]
Actual Service Cost Paid to Manpower Agencies in FY 2001	$4,253,138	$4,253,138
Estimated additional Cost as a Percentage of FY 2001 Actual Service Cost	36% [2]	17% [4]

[1] ($1,512,011/ $4,075,300)=37.10% or 37%
[2] ($1,512,011 / $4,253,138)=35.55% or 36%
[3] ($710,254 / $4,075,300)=17.43% or 17%
[4] ($710,254 / $4,253,138)=16.70% or17%

Cost Comparison - Direct Hire vs Contracting Through Manpower Agencies

High-End Cost Analysis: Conversion of Nurses Who Passed the NCLEX & with 5 Yrs. of Experience Assuming They Would Elect Not to be a Part of the CNMI Retirement System

Position	Total Annual Compensation or Service Cost	Total Annual Cost of Personnel Benefits	Total Annual Cost	Annual Retiremment Contribution Cost	Total Annual Cost Without the Annual Cost of Retirement Contribution
DIRECT HIRE - Estimated cost based on anticipated rates of salary and benefits to be paid					
BSN NCLEX 5+ Yrs. Exp.	$3,326,206	$2,136,983	$5,463,189	$836,300	$4,626,889
LPN 5+ Yrs. Exp.	548,810	409,183	957,993	137,989	820,004
Hemodialysis Technician 5+ Yrs. Exp.	122,389	115,866	238,255	30,773	207,482
OR Technician 5+ Yrs. Exp.	17,484	16,552	34,036	4,396	29,640
TOTALS	**$4,014,888**	**$2,678,585**	**$6,693,472**	**$1,009,457**	**$5,684,015**
MANPOWER HIRING - Estimated cost computed pursuant to base rates provided in the contract[5]					
Regitered Nurse (RN)	$3,277,500	NA	$3,277,500	NA	$3,277,500
License Practical Nurse (LPN)	609,000	NA	609,000	NA	609,000
Hemodialysis Technician	165,200	NA	165,200	NA	165,200
Operating Room Technician	23,600	NA	23,600	NA	23,600
TOTALS	**$4,075,300**	NA	**$4,075,300**	NA	**$4,075,300**

NA- not applicanble

	Cost With Retirement	**Cost Without Retirement**
Additional Cost to Convert Current Number of Manpower Agency Nurses to Direct Hire	$2,618,172 [1]	$1,608,715 [3]
Estimated Additional Cost as a Percentage of Manpower Hiring Costs	64%	39%
Actual Service Cost Paid to Manpower Agencies in FY 2001	$4,253,138	$4,253,138
Estimated additional Cost as a Percentage of FY 2001 Actual Service Cost	62% [2]	38% [4]

[1] ($2,618,172 / $4,075,300)=64.24% or 64%

[2] ($2,618,172 / $4,253,138)=61.56% or 62%

[3] ($1,608,715 / $4,075,300)=39.47% or 39%

[4] ($1,608,715 / $4,253,138)=37.82% or 38%

[5] Most of the manpower nurses provided under the current contracts do not have NCLEX and five years of experience.

Summary of Responses of Selected Doctors and Unit Managers to Interview Questions
Concerning Nurses Provided by Manpower Agencies as of December 31, 2002

Doctors:

	Need More Training?	Once Trained, at Par with DPH Nurses?	More Bad Incidents Because of Manpower Nurses?	Unsatisfactory Nurses Being Retained?	Has Quality Affected Patient Care?	How Many Would You Keep in Your Own Unit	Need to Go Back to Direct Hiring?
Doctor 1	No	Yes	No	No	No	All	Yes
Doctor 2	Yes	NA	Yes	NA	Yes	All	Maybe Not
Doctor 3	Yes	Yes	No	Yes	Tolerable Level	80% to 90% of total	Yes
Doctor 4	Yes	Yes	NA	Yes	Yes	Outpatient- 80 to 90%; On Floor - less than 50%	Yes
Doctor 5	Yes	NA	Yes	Yes	Yes	1/3 of total	Yes
Doctor 6	Yes	Yes	Yes	Yes	Yes	10% to 15% of total	Yes
Tabulation of Response	**5 Yes** **1 No**	**4 Yes** **0 No** **2 NA**	**3 Yes** **2 No** **1 NA**	**4 Yes** **1 No** **1 NA**	**4 Yes** **1 No** **1 Tolerable**		**5 Yes** **1 No**

Nurse Unit Managers:

	Need More Training?	Once Trained, at Par with DPH Nurses?	More Bad Incidents Because of Manpower Nurses?	Unsatisfactory Nurses Being Retained?	Has Quality Affected Patient Care?	How Many Would You Keep in Your Own Unit	Unjustly Treated in Pay and Benefits?
Unit Manager 1	Yes	Yes	NA	No	No	All	Yes
Unit Manager 2	Yes	Yes	No	Yes	Yes	All	Yes
Unit Manager 3	Yes	Yes	NA	Yes	Yes	10 of 15 in unit	Yes
Unit Manager 4	Yes	NA	Yes	Yes	Yes	more than 50% of total	Yes
Unit Manager 5	Yes	NA	NA	Yes	Yes	6 of 11in unit	Yes
Unit Manager 6	Yes	NA	NA	No	NA	No agency nurses in the unit	Yes
Unit Manager 7	No	NA	NA	No	NA	All	Yes
Unit Manager 8	Yes	NA	NA	No	Yes	80% in unit	NA
Tabulation of Response	**7 Yes** **1 No**	**3 Yes** **0 No** **5 NA**	**1 Yes** **1 No** **6 NA**	**4 Yes** **4 No**	**5 Yes** **1 No** **2 NA**		**7 Yes** **0 No** **1 NA**

NA-No Answer

Summary of Manpower Agency Nurses Responses to Interview Question at December 31, 2002

								Satisfied with Pay and Benefits						
Nurse	Manpower Agency	Amount of Recruitment Fee Paid	NCLEX Certified	Years of Nursing Experience	Years of Service At CHC	Annual Salary	Will Stay if Directly Hired	Regular Pay	Employer Provided Housing	Utilities	Sick Leave	Vacation Leave	Holiday Pay	Medical
1	PARAS	$1,000	no	6.5	1.5	$17,680	Yes	No	No	NA	NA	NA	NA	NA
2	SEAS	NONE	yes	23	13	20,384	Yes	No	NA	NA	No	No	No	No
3	PARAS	300	no	20	7	16,640	No	Yes	Yes	NA	NA	NA	NA	NA
4	MHS	400	yes	12	6	23,192	Yes	NA	No	NA	NA	NA	NA	NA
5	SEAS	1,300	no	7	1	18,720	Yes	NA	Yes	No	No	No	No	NA
6	SEAS	1,500	yes	6	0.25	18,574	Yes	No	No	No	No	No	No	Yes
7	PARAS	300	yes	25	7	23,150	Yes	NA	No	Yes	No	No	No	No
8	MHS	NONE	yes	6.5	1.5	21,986	Yes	No	No	Yes	Yes	Yes	Yes	Yes
9	PARAS	NONE	yes	24	3	21,986	Yes	No	NA	NA	No	NA	No	NA
10	SEAS	1,560	no	10	1	18,720	Yes	No	No	No	NA	No	No	NA
11	SEAS	1,500	yes	16	6	21,986	Yes	No	Yes	No	NA	No	No	Yes
12	SEAS	1,500	no	8	1.5	18,720	Yes	NA	Yes	No	No	No	No	No
13	PARAS	1,000	yes	13	8	22,714	Yes	No	NA	NA	No	No	No	No
14	SEAS	300	yes	14	7	18,574	Yes	No	No	No	Yes	No	No	Yes
15	SEAS	1,500	yes	10.5	1.5	21,986	Yes	No	No	Yes	Yes	No	No	No
16	PARAS	1,000	no	15	11	16,640	No	No	No	Yes	Yes	No	No	No
17	SEAS	1,200	yes	7	1.5	21,986	Yes	No	No	No	No	No	No	No
18	SEAS	1,250	yes	22	15	21,986	Yes	No	No	No	No	No	No	No
19	PARAS	NONE	yes	7	2	21,986	Yes	No	Yes	Yes	No	No	No	No
20	SEAS	1,200	yes	17	7	18,574	Yes	No	Yes	Yes	Yes	No	No	Yes
	SEAS - 55% PARAS - 35% MHS - 10%	Average Fee $1,051	14 Yes-70% 6 No-30%	Ave. Yrs. 13.48	Ave. Yrs. 5.09	Ave. Salary $20,309	18 Yes-90% 2 No-10%	1 Yes-5% 15 No-75% 4 NA-20%	6 Yes-30% 11 No-55% 3 NA-15%	6 Yes-30% 8 No-40% 6 NA-30%	5 Yes-25% 10 No-50% 5 NA-25%	1 Yes-5% 15 No-75% 4 NA-20%	1 Yes-5% 16 No-80% 3 NA-15%	5 Yes-25% 9 No-45% 6 NA-30%

N/A - Not applicable

Commonwealth of the Northern Mariana Islands

Department of Public Health

Office of the Secretary of Public Health

RECEIVED
JUL 22 2003

July 16, 2003 SLT-03-07-914

Michael S. Sablan, CPA
Public Auditor
Office of the Public Auditor
P.O. Box 501399
Saipan MP 96950

Dear Mr. Sablan :

Re: Draft Report Addressing Nurses That The Commonwealth Health Center Contracted Through manpower Agencies Versus Those Hired Directly

Thank you for giving the Department of Public Health an opportunity to review your draft report regarding the above issue.

Several key members of my staff and I have reviewed it. We appreciate the amount of work, both investigative and subsequent, that went into its preparation, and we read with great interest your assessment and recommendations.

Thank you again for all your hard work on this issue that is of vital importance to this department and to the community as a whole.

Sincerely,

PEDRO T. UNTALAN, MHA
Secretary of Public Health, Acting

PO Box 500409 CK, Saipan MP 96950
Telephone: (670) 236-8202 FAX: (670) 234-8930
e-mail: dphsec1@vzpacifica.net

SEAS, INC.

07 July 2003

Mr. Michael S. Sablan, CPA
Public Auditor
Office of the Public Auditor
1236 Yap Drive
Capitol Hill, Saipan, MP 96950

Dear Mr. Sablan,

Thank you for affording Saipan Employment Agency Services, Inc. (SEAS, Inc.)the opportunity to comment on your Draft Report on the manpower agency provided nursing staff at the Commonwealth Health Center (CHC), hereinafter referred to as the Draft Report. First, we acknowledge that the retention of nurses at CHC does present a problem for all concerned, the patients, the CHC, the Staffs, and even the recruitment agencies. Like many problems in the government or private sector, they can be resolved by the increased expenditure of money. However, as you correctly point out, the CNMI is in short supply of money. Given the difficult task involved, it is not surprising that the ultimate conclusion and recommendation of the report is a compromise solution.

We would like to point out certain issues which the Draft Report fails to take into consideration. We also would like to submit additional evidence which we hope it will use to reassess some of the conclusions which you have drawn.

Perhaps it would be helpful to summarize the comments according to subject matter.

YOUR SUBJECT

"Nurses that CHC Contracted through Manpower Agencies Versus those Hired Directly"

Your draft report is comparing nurses from manpower agencies which are all non-resident contract workers against those hired directly by CHC who are resident workers and expatriates. This comparison is inequitable and misleading. First, we have to define what is and who are the direct hire nurses. This comparison is only correct as far as costing and savings is concerned, to a certain degree.

SAIPAN EMPLOYMENT AGENCY & SERVICES, INC.
OFFICE ADDRESS: RM. 207 CTC BLDG., SAN JOSE, SAIPAN, CNMI TEL.: (670) 234-7327
MAILING ADDRESS: P.O. BOX 724, SAIPAN MP 96950 FAX: (670) 235-2996

OBJECTIVE

> "The objective of the DPH's review was to determine whether the Department of Public Health was saving money without compromising patient care when it chose to contract with manpower agencies for a portion of its nursing staff in lieu of directly hiring nursing staff of its own. To determine which source of nurses was most efficient, we conducted cost analysis using both manpower contract and direct hire data"

The objective is very much commending and the comparison of cost between the manpower services and the current direct hire nurses of CHC to determine the savings is appropriate. Compromising patient care based on your comparison seems to be inequitable.

RESULTS OF REVIEW

> "Our review shows that, although it would be substantially more costly to replace all manpower nurses with direct hire nurses, to continue the current practice of contracting with manpower agencies will perpetuate other problems most notably the inability to retain qualified nurses"

If direct hire nurses are CNMI residents or expatriates, then your study seems to be appropriate. However, if the direct hire nurses are non-resident contract workers or the same nurses that the agency hires and will just be transferred to CHC, then this is no longer true. Qualified non-resident nurses with long years of experience whether hired directly by CHC or employed thru agencies are being hired by our competitor, US and Europe Employer or Recruiter. Especially Filipino nurses most, if not all, would like to be US residents and eventually US citizens together with their family. Regardless of how much is the pay they are receiving whether thru CHC or manpower agencies, these nurses would leave to secure permanent resident status and future stability with their family.

> "Manpower provided nurses do not received pay and fringe benefits (i.e. retirement benefits, housing, night differential, holiday pay, sick leave, annual leave and health insurance) equal to their direct hire counterparts. In the end, the higher turnover among manpower provided nurses and their resulting replacement with inexperienced nurses could adversely affect the quality of patient care provided"

We will not dispute that manpower nurses receive less than their counterpart direct hire. However, this is not our doing. We are mandated by CHC as to what we pay them and benefits they will receive. (Please check the RFP outline by CHC). Again, this is not necessarily the cause of higher turnover. There were no survey done or inquiry made by your office as whether these nurses employed by manpower agencies if hired directly by CHC with higher salary and benefits will guarantee their stay in Saipan for at least 3 or 5 years. Based on our inquiries with our nurse

staff, nobody will assure us of their stay either. Our inquiries were directed to nurses who are NCLEX passers.

1. Direct Hiring of Nurses Will Result in Greater Costs.

There is no question that CHC will have tremendous savings utilizing manpower agencies. What was not taken into consideration in your study is that there are other less visible costs CHC will incur.

Other Cost

a. Recruitment Cost – Even if CHC could get CNMI fees and costs waived, there are the cost of the recruitment agency to find the applicants and once selected, process their documents in the Philippines, an average cost of $1,500. per applicant.

b. Transportation – Most nurses who are from the Philippines have never driven an automobile before. Since there is no system of transportation in Saipan, they would need transportation to and from work. A cost that shouldered by the manpower agency currently.

c. Repatriation and other expenses related to early termination due to not meeting CHC expectations. At present, the cost of bringing a replacement nurse is borne by the manpower agency, not CHC.

Retirement Fund Contribution

The Draft Report also suggests that legislation allowing nurses to opt out of the Retirement Fund would minimize costs to the Government. There is some fallacy in such an assumption. If the idea is that the employee is going to be encouraged to stay for a long time, then she/he may want the security of a retirement plan.

2. Manpower Agency provided Nurses May Be Jeopardizing CHC Patient Care

A. CHC faces difficulty in attracting and retaining qualified nurses

"CHC has had difficulty in attracting and retaining qualified nurses because it does not directly contract for many of its nurses as hiring is instead done by manpower agencies"

Although the nurses are hired under the agencies, the selection and hiring is done by CHC personnel. It is either CHC go to Manila for final interview and selection of applicants or interview them via tele conference. Once selected, we process their papers for documentations and permitting. CHC arrange their unit of

assignment and work schedule and they directly supervise them. In short, quality selection and direct control is under their responsibility. In the event that their selection does not meet their expectations, then we replace their selections at no extra expense on the part of CHC.

B. In your page 5 of 16, it goes further "Manpower agencies offer lower salaries and benefits than CHC pays the nurses it hires directly. As a result CHC retaining relatively low percentage of manpower agency provided nurses as according to OPA's review of manpower agency personnel data, most manpower provided nurses use their CNMI job as a means of moving to the US mainland. More specifically, manpower nurses come to CNMI to receive training, experience and the NCLEX certification needed to practice in the States. Once they obtain their NCLEX certification, most seek jobs in the US mainland or elsewhere because their current salaries are not competitive with those paid in the US mainland."

"OPA found that direct hire nurses stay in the CNMI for a considerably longer period than do manpower nurses, resulting in less turnover."

Your conclusion seem to be that high turnover of recruited nurses is based on the low pay and unequal benefits they receive as compared to direct hire nurses. You have compared them on a breakdown of 83 direct hires nurses versus 126 manpower agency recruited nurses. However, you have failed to analyze the make up of the direct hire nurses. Specifically, there is no indication whether any information was gathered about the ethnicity or citizenship of the direct hire nurses. In this regard, we believe your Draft Report is misleading. It seems to suggest that CHC nursing staff of 209 almost all of them were hired from off island as non-resident contract workers. That those 83 direct hire nurses have decided to stay because of their pay and benefits. The truth is that the overwhelming majority of those 83 nurses are from Saipan or CNMI. They are persons who are either CNMI or Micronesian descent and they have families and other ties to the Saipan Community. Therefore, even if they are not working at CHC at all they would still remain in CNMI. Also out of the 83 nurses some are expatriate and if you will study the turnover of this expatriates, which we did, the turnover is very similar, if not worse than the manpower nurses. This seems to us to present a major flaw in this part of the Report Analysis.

However, this is not to suggest that we do not agree with your conclusion that many nurses leave CNMI in order to look better pay and benefits. What was not mentioned was that for the most, the main reason of their departure is they are being offered permanent residency not only for themselves but together with their family. We are aware of this because based on our exit interview with the nurses, their main reason is not remuneration but rather their permanent status. They do not wish to be contract worker forever.

We have attached sample advertisement to this comment letter taken from various US and Philippine newspapers. If your review these data, you will find that

Philippine nurses are being courted by many mainland communities. These communities and the US Government are offering salary and benefits which cannot be matched in the CNMI. Philippine nurses (with or without NCLEX) are being offered.

1. US Permanent Resident Status leading to US Citizenship
2. The ability to bring their immediate families to the US as well
3. $10,000 contract sign-in bonus
4. Basic salary ranging from $35-45/hr.
5. 6 months of free housing accommodation
6. 6 months of free transportation to and from place of work

These are just to name a few.

We point out because these are what the CNMI Government is really competing with. The truth is that there is really a great nurse shortage not only in the CNMI but in the US Mainland and Europe as well. In the US hospitals alone, the average shortage is about 126,000 but with 77 million baby boomers advancing in years, and the current crop of nurses facing retirement over the next two decades, the need for nurses is expected to exceed one million by 2010 according to the US Bureau of Labor Statistics.

Even in the Philippines, there is a special report in one of their leading newspapers, The Manila Times stating "Philippines Suffers from Hemorrhage of Nurse"

Again we are pointing this out because whether off-island non-resident nurses under the manpower agencies or CHC direct hire, the same turnover and ending up with newly hired inexperienced nurses will be encountered.

With regards to patient care and incidents of carelessness and inexperience mentioned in your report, we see no difference. CHC will be directly hiring most if not all of the agency nurses. What will change is only the name of employer from agency to CHC. We said this because CHC is starting or attempting to do it now using consensual transfer (see attached letter) even if our nurses have existing contract with us. A very unethical way.

3. Disparity in Compensation Between Direct Hire and Manpower Agency Provided Nurses

A. Nurses provided by the manpower agencies receive an average of $19,298. per annum as compared to the direct hire nurses who received $27,948.

Actually the NCLEX-RN manpower nurses as per our record received a salary of $21,985.60. If we include the cost of housing, transportation, utilities and travel benefits that the manpower agency is providing to the employed nurses, the total amount is $27,245.60, a slight difference in the amount being received by the direct hire nurses.

B. Manpower nurses do not received holiday pay if required to work on holiday.

Manpower nurses are being paid holiday pay if they work on holiday under the agency adopted four holidays a year.

C. Manpower nurses received one-week vacation .

Manpower nurses are entitled to two-weeks vacation for every year of service and not one week.

Other Matters Not Considered in the Draft Report:

A. No study was conducted on how many nurses are just waiting for their visa approval to go to US mainland. Base on our inquiries, 25% to 35% are on stand by. What if they all resign at the same time?

B. Additional Legislation

1. **Report already suggest the need for "special" legislation in the Retirement Fund Area.**

2. **There would also be a need to amend the mandatory four (4) year limit of non-resident nurses. (There is already an exemption passed)**

C. Protection of CNMI Government from EEOC suits

Any differing treatment of non-resident nurses hired directly by CHC might lead to suit against CNMI for non-equal pay for same work (PSS Suit)

D. What about cost of expatriation and repatriation

What you extend to your expatriates must be the same to non-resident workers.

CHC HIRING DIRECTLY 150 OFF-ISLAND NON RESIDENT WORKERS AND TOTALLY ELIMINATING MANPOWER AGENCIES

Economic Impact

1. **In general, the government is courting and encouraging businesses to establish on the island to promote economic growth. And here we are trying to strangle an existing tax paying business. At present, for the past 7 years the privatization of providing manpower to CHC has been working well. Why break it, instead let us fix it.**

2. **Draft report failed to take into consideration that not only CNMI Government will be spending more. It will lose 5% BGRT now paid by Manpower Agencies to CNMI Government as well as labor fees paid for their Entry Permit and other governmental documentations.**

3. **Eliminating the role of the agencies will force them to close business thereby, at least 10 employees both local and off-island will be out of work. Considering the high rate of unemployment at CNMI, for sure this will be felt**

Political Impact

1. **With the austerity program and belt tightening measure that the Governor is implementing, this is a controversial move.**

2. **With the high unemployment percentage we have on the island, CHC directly hiring 150 off-island non-resident workers will create commotion not only locally but with the US Congress as well. Remember there is a hiring moratorium at present yet CHC will have the most number of non-resident workers compare to an average company on the island (140 nurses, 10 ancillary staffs based on the latest bid negotiation)**

Solution/ Recommendation:

We will admit that there is no easy and short-term solution to the shortage of qualified nurses that will stay with CHC. As long as there is an existing shortage of nurses in US mainland and Europe.

However, like other countries, the solution is long range and it involves the entire government and the community alike.

While the temporary nursing needs is with the manpower agencies and the permanent or CNMI residents and expatriates with the CHC, the goal is eventually to increase the resident nurses and decrease the number of off-island non-resident nurses until they are replaced permanently.

Ways of increasing resident nurses.

a. Maybe CHC can recall those nurses that still can work but has already retired at an early age. Allow double dipping for 2 to 4 years.

b. Board of Nursing appoints Nursing Ambassador to early educate youngster leading to nursing study.

c. Northern Marianas College to entice Nursing career.

d. Government offer special scholarship for Nursing.

e. Business and non-profit organization to sponsor nursing student.

f. Revisit the apprenticeship program thru Fund Allocation (Labor Processing Fees) to finance educational and training programs such as nursing, skilled workers, etc., to create labor pool for nurses.

g. Entice and lure expatriate thru Recruitment Agency in the US Mainland.

On the other hand, our role as manpower provider to CHC is to ensure that we continuously provide you with the most qualified nursing staff thru our contact with different hospitals in the Philippines despite the difficulty of competing with the US mainland and Europe recruiters. At present, base on our figure, the parity between CNMI nurses and our nurses is not that much different and if CHC is willing to spend the extra money that is needed, then maybe we could fix some problems. Additionally, if CHC wants nurses to stay longer then the RFP should provide for Contract Terms which are greater than two years so that manpower agencies can also promise longer term contracts to the off-island hire nurses.

Conclusions:

We trust our presentation can convinced you that if CHC directly hire most if not all of the Agencies' Nurses, then CHC will face the same problem of retaining qualified nurses. Even CHC increase pay and benefits of the nurses, the result will be the same high turnover because of employment opportunities in the U.S. and Europe where permanent residency status is being offered as well as higher pay and benefits as spelled out previously.

We also trust that we explained and impart to you our views and we strongly recommend that you revise some of the conclusions in the Draft Report. We ask that you consider that this problem can be alleviated in other more constructive ways.

Finally, we would suggest that appropriate revisions or changes in the contract terms and conditions between the agencies and CHC could still be done to resolve disparities or inequities on the issue at hand so as to meet the goals and objectives of all parties concerned.

Sincerely yours,

Jaime R. Cruz
President

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July 8, 2003

Michael S. Sablan
Public Auditor
Commonwealth of the Northern Mariana Islands
1236 Yap Drive
Capitol Hill, Saipan, MP 96950

Re: Draft Report Addressing Nurses That The Commonwealth Health Center Contracted Through Manpower Agencies Versus Those Hired Directly

Dear Mr. Sablan:

Thank you for the opportunity to comment on Office of the Public Auditor's draft report. While we do not disagree with the issue of needing to improve health care services provided by nurses, we are concerned with the insufficient arguments used to support your contention that directly hiring nurses will adequately address this need.

Hiring and retaining qualified non-resident nurses requires much more than a slight increase in pay. Other significant contributing factors include a stable work environment, job security, and constant attention to employment benefits. Then there are cultural differences that also make comparisons between indigenous workers and non-resident worker misleading.

Since the time that your office came out with its draft report on May 7, 2003, the Department of Public Health has initiated its efforts to direct hire. None of the manpower companies have been given any formal plan or timeline for their phase out, which puts them in a most difficult position, as they have no opportunity to also plan accordingly. Furthermore, a potential conflict of interest may be created as CHC is attempting to pirate nurses from its manpower companies. We have already received requests for consensual transfers.

Without proper planning, we fear that this rush to direct hire is prompting the direct opposite of its intended goal, which is improved worker morale. Poor communications between CHC administration and manpower agencies is causing stress and fear among many of the manpower nurses. Rumors are running rampant that manpower companies are being phased out immediately or that certain manpower companies are not being renewed. As admirable CHC's intentions are, taking a Machiavellian approach to reaching its goals defeats its purpose.

The majority of direct hire nurses are from Saipan, with family and cultural attachments. Manpower nurses do not have the same attachments to Saipan. The reason manpower nurses come to Saipan is for the increase in pay over their points of origin. It is well known that one of the greatest assets the Republic of Philippines enjoys is its overseas worker. All over the world, Filipino workers can be found making a living for themselves and their families back home. We get resumes from Filipinos as far as Saudi Arabia. Currently, the CNMI is the only place outside the U.S. that offers the NCLEX. Scores of nurses from the Philippines have flown here just to take the NCLEX. Based on our employment records, the vast majority of manpower nurses who

have left Saipan have moved on to the Mainland to a higher salary after acquiring their NCLEX certifications here in Saipan.

Another contributing factor to the high turn over rate for manpower nurses is the lack of job security. Non-resident manpower nurses are in the CNMI on an annual contract as is every other non-resident worker in Saipan. Of the manpower nurses who have left for the mainland, most of them entered into five-year contracts that included hefty signing bonuses with various health care providers in the U.S. Mainland. When asked, they point out that they have more security and opportunities provided by attaining employment in the mainland than what we can provide them here. Even now as CHC is aggressively trying to direct hire nurses, the majority of their prospective candidates are from its contracted manpower companies. So we disagree that this will attract back former manpower nurse who have moved on.

Your report does not address any hidden costs associated with direct hiring non-resident workers. Recruitment fees, airfare and NCLEX training are several major factors that need to be considered. Even if you offered the same rate as direct hire nurses, it is still much less than what is being offered in the U.S. And with the increasing nurse shortage in the U.S., the pay disparity will also increase. CHC must anticipate paying these hidden costs for subsequent replacements when NCLEX nurses are lured away to new jobs.

You conclude your report by stating that the direct hire of nurses would be a step in the right direction to improve patient care. I feel improved patient care can still be achieved with manpower nurses through improved relations between CHC and the manpower companies. The more stable that relationship, the more efficient manpower companies can operate, the more savings manpower companies can translate into added benefits to the nurses. In the meantime, the current unstable working environment will continue to deteriorate employee morale making their contention that manpower nurses are sub-par a self-fulfilling prophecy.

Once again, we appreciate this opportunity to comment on your draft. Please do not hesitate to contact me should you have any questions.

Sincerely,

Vincent J. Seman
Vice President - Operations

Published by Office of the Public Auditor, P.O. Box 501399, Saipan, MP 96950
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