

Multiple Black Holes Engulf Laguna Honda

by Patrick Monette-Shaw

Laguna Honda Hospital just can't seem to avoid the multiple black holes engulfing it — ranging from the unresolved scandal with its patient gift fund, additional construction problems further delaying LHH's move into its new facilities, and potential construction cost over-runs that appear to be growing worse.

Add to this the black-hole failure of Laguna Honda Volunteers, Inc. to acknowledge how much money was raised at its June 24 Black Tie Gala fundraising dinner and which agencies would be beneficiaries of the event, and the disturbing black-hole failure of the separate Laguna Honda Foundation to release details of its non-profit tax returns to the IRS.



All of this exacerbates already-poor relationships with the community, donors, and its patients.

Here's some black-holes giving LHH a black eye.

Construction Problems

In recent months, there have been anecdotal reports that: 1) Air conditioning compressors, or some other units placed on the roofs of LHH's new buildings, have been emitting a high-pitch noise disturbing both patients and surrounding neighbors. Sound-dampening blankets were ordered, but reportedly failed to work because they were exposed to the elements and weren't water-proof; 2) Structural problems in passageways between the old building that will remain and the new "connector" building linking up with the new "Pavilion building" have encountered unexpected construction problems that may prevent safe patient transport on moving day; 3) A boiler in the new "connector" building may have had a blow-up, and may not be operational until February 2010; and 4) Inadequate cooling systems (which LHH appears to acknowledge) may be affecting the main telecommunications and data center in LHH's new computer server rooms. The telecommunication and computer equipment may have had to be turned off to avoid damage, possibly because the data center wasn't designed with adequate air cooling, which may have been "value engineered" out of the plans in a misguided move to trim construction costs.

During the July 27 meeting of the Laguna Honda Hospital-Joint Conference Committee (LHH-JCC, a subcommittee of the Health Commission that jointly includes senior LHH's managers), John Thomas, the LHH Replacement Project manager, noted that repairs to a significant portion of the roof structure of the existing old buildings, which repairs weren't contemplated, and repairs to newly-discovered "cracks and voids" in the concrete of the existing buildings, has added another \$1 million in unexpected costs just to repair the cracks and voids; he didn't mention the projected costs to repair the roof.

Also, during the July 27 LHH-JCC meeting, LHH's staff assured the three Health Commission members present that patients would move in to the new facilities in October. But in the past month, new information indicates the move-in likely won't happen until December, or perhaps until after the first of the year, eight to ten months past the already-delayed April 2010 date that patients had been scheduled to move into the new hospital.

Cost Over-Runs Potentially Growing Worse

During the LHH-JCC's July 27 meeting, Thomas reported on potential problems with the replacement budget. He claimed there was some "contingency" involved with the \$57 million budgeted for the remodel of the old buildings that will remain. He indicated \$44.5 million for the remodel work has been "executed" to date, apparently indicating a "fair amount of contingency" — implying discretionary leeway to potentially adjust the scope of the work within the remaining \$12.5 million remodel budget.

What he didn't acknowledge is that the total program-wide contingency, apparently in Budget Revision #13 stood at \$9 million in September 2007. By June 2008, the program-wide contingency had been reduced to \$2 million during Budget Revision #14. Budget Revision #15 completely eliminated the remaining \$2 million program-wide contingency by June 2010, apparently to accommodate a directive by Mayor Newsom.

Thomas also indicated on July 27 that the \$23 million budgeted all along for Site Work package #3 — which includes demolition of the existing building wings “D” through “O,” eventual completion of the east parking lot an access bridge to the East side parking lot, an ADA-accessible pathway on the upper front lawn, and other improvements — is being reviewed for what the final “scope” of work will be, which will be “key on whether we’re able to stay within that \$584 million” overall project budget.

So it sounds as though there may be a need to increase the total project budget perhaps by as much as \$5 million, along with possible further reduced scope in the final site improvement package, or possibly another budget increase.

The “scope” of the project was reduced by \$17 million in Budget Revision #14, and another \$9 million of “scope” was reduced in Budget Revision #15 to address “unfunded operating costs for the Department of Public Health.” Now, the City Controller’s FY 2010-11 Revenue Letter titled “Controller’s Discussion of the Mayor’s FY 2010-11 Proposed Budget” indicates that the LHH Project returned \$2.1 million in “year-end surplus” savings from FY 09-10 to the Mayor’s proposed budget for FY 10-11, apparently to the General Fund.

This totals at least \$26 million in “scope” features initially planned that have been cut, plus another \$2.1 million in unexplained “surplus,” representing a black hole of at least \$28 million. Why isn’t Louise Renne, chairperson of the Laguna Honda Foundation, looking into this “reduced scope” black hole?

Black-Tie Dinner Fundraising Event Mystery

Two-and-a-half months after the Black-Tie Gala Dinner held in June advertised as benefitting Laguna Honda Volunteers, Inc., ostensibly for patient benefit, the amount raised at the event has still not been released to the public.

From the program material, it appears at least \$450,000 was potentially raised by the various major sponsors of the event (“Gold,” “Platinum,” etc.), excluding an unknown amount added to gross receipts raised by individuals who purchased the \$250 and \$350 event tickets.

Supervisor Sean Elsbernd’s recent Form 803 reports posted on the Ethics Commission web site indicates he made personal “bequests” (personally solicited requests) that raised \$165,000 for the Gala Dinner, plus another \$40,000 for Volunteers, Inc.

Community Initiatives, a separate non-profit organization that now acts as the “fiscal sponsor” for Louise Renne’s Laguna Honda Foundation, says her Foundation will share in proceeds raised at the Gala dinner, but refuses to disclose how much will be diverted to the Foundation, claiming event expenses are still unknown and the net amount raised is still unclear. Donors beware: This is a black hole if there ever was one.

Laguna Honda Foundation Refuses to Release Financial Data

On August 12, I reached Louise Renne by phone, asking for summary-level financial data about her non-profit Foundation. I asked for summary data about how much the Foundation had spent in the past three years on “program services,” “management and general,” and “fundraising,” three categories of information donors typically use to evaluate performance of non-profit organizations, data required by the IRS.

Renne stated, “I’m not taking a lot of time [to provide the requested financial data] because I see no reason to put everybody to the trouble of doing busy-work” to provide it. She further indicated she saw “no reason to provide details.”

I also asked for her Foundation's top five contractors for "professional services" in each of the past three years, and her top five contractors who provide "other services," that the IRS requires 501(c)(3) organizations to report, along with grants made under required "grantmaking" purposes. Renne suddenly declared, "Enough!," refusing to provide any data, or to answer further questions.

This is summary data Renne must have, and could and should release, but stubbornly won't — illustrating yet another enormous black hole.

Unresolved Scandal with LHH's Patient Gift Fund

Don't believe public service announcements reporter Dan Ashley began airing on Channel 7 during the week of August 22, claiming LHH's misspent patient gift funds "went back to patients" as a result of KGO TV's I-Team single broadcast on May 20. It simply isn't true, since there has been no audit, and no restitution of missing patient funds.

Indeed, Deputy City Controller Monique Zmuda is scheduled to return to LHH the week beginning August 30 to conduct yet another "review" — apparently not an actual audit — of LHH's patient gift fund. Her "audits group" will ostensibly determine under what "authority" LHH may have departed from the Municipal Code in administering gift funds earmarked to benefit actual patients, and whether the patient gift fund was administered in accordance with stipulated mandates, before potentially re-performing allocation of over \$100,000 in interest earned diverted to staff sub-accounts rather than to patients, after determining "reasonableness" of the diverted funds.

Zmuda will need to dig deeper to quell concerns, since former LHH doctors Maria Rivero and Derek Kerr have recently uncovered through additional public records requests that massive "cost shifting" of expenses from the hospital's operating budget was pushed onto the patient gift fund beginning in 2004, despite provisions prohibiting use of the gift fund for routine hospital operations.

Basic patient care provided under hospital operating budgets is defined by Federal and State regulations governing skilled nursing facilities.

In the first eight months following John Kanaley's appointment as LHH's executive administrator in 2004, \$745,000 appears to have went missing from the patient gift fund, still unexplained, when the fund plummeted rapidly from \$2 million to \$1.3 million.

Since 2004, the two doctors suspect LHH has improperly cost-shifted at least \$550,543 for dietary department catering costs, basic patient activities and amenities, and patient transportation costs from its operating budget to the patient gift fund. Another \$76,013 has been improperly diverted from the gift fund for staff amenities, including catered meals, travel expenses, employee recognition awards including \$50 "thank you" checks to employees-of-the-month, and employee training expenses.

The patient gift fund has been depleted of at least \$1,360,065 in questionable expenses since Kanaley first began cost-shifting in 2004; staff amenities questionably charged to the gift fund appear to have spiked in 2009 after Mivic Hirose became executive administrator.

Zmuda's new "review" of the gift fund sub-accounts — still avoiding a full, impartial audit and still lacking actual restitution of misspent funds — may continue to whitewash LHH's various black holes.

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