

**Laguna Honda Hospital Joint Conference Committee
Friday, December 3, 2010**

**Verbatim Transcript of Agenda Item 4:
Laguna Honda Hospital Gift Fund Report**

Transcription by Patrick Monette-Shaw

Note: Comments in square brackets are added for clarification; footnotes have been added to provide context and interpretation. Any errors in transcription by the transcriptionist are unintended.

Speaker	Comment
Gregg Sass, Department of Public Health Chief Financial Officer	<p>We have members of the Audit Team in the Controller’s Office and the manager of the Audit Team here to ... kind of ... present the results of their audit [of the Laguna Honda Hospital patient gift fund] ... [inaudible] the primary presentation being made. I don’t have a presentation of my own, but I am certainly prepared to respond to your concerns and questions.</p> <p>So I think maybe the first thing to do is to introduce our Audit Team: Tonia [Lediju, [inaudible], San Francisco City Controller’s Office] ... I think you’ve met Tonia before. She was here [inaudible] at your last [Joint Conference Committee] meeting ... [inaudible] ... and her two staff Nicholas and Elisa [Elisa Sullivan, Audit Manager, City Services Auditor program, and Nicholas Delgado, Associate Auditor, City Services Auditor program].</p> <p>[Inaudible]. I think I have it. The intent was to hopefully have a ... be able to do a PowerPoint [presentation] here, but I don’t think we have the facilities for that. So there’s a handout. Hopefully there are enough copies of that to go around. If not, I can get one [inaudible] ...</p>
Health Commissioner Sonia Melara	OK. So [inaudible] following this with the presentation ... [inaudible].
Unknown speaker	It’s all yours. [Inaudible]
<p>Tonia Lediju, Director of Audits, City Controller’s Office</p> <p>[Lediju oversees both the City Services Auditor function in the Controller’s Office, and also the City Controller’s Whistleblower Program]</p>	<p>Thank you. I’d like to first thank the Laguna Honda staff, particularly Mivic [Hirose] and Gregg [Sass], and Tess [Navarro, former LHH CFO] is not here, is no longer the ... and her staff, who was working with us to work through the audit. And I’d like to say that one of the things about auditing is ... generally ... we come in, we’re taking your information, compiling it, and stating what the facts are at that point in time. And ... um ... there were probably over 2,000 expenditures and we did a statistical sampling, and we looked at a total of 324 expenditures¹ and 50 donations into that staff or patient gift fund. And ... so ... it is really cost-prohibitive to do every last single transaction, and again, our sampling was statistical.²</p> <p>[Inaudible] So ... our audits are conducted in accordance with the government auditing standards, which are published by the U.S. Accountability Office. And those standards require independence of audit staff and the audit organization, objectivity of the auditors performing the work [to] ensure that we have competent staff, including continuing professional education, and a system of quality control procedures to provide reasonable assurance of compliance with the auditing standards.</p> <p>And sometimes, individuals ... you know ... will ask the question, when we’re asked to audit,</p>

¹ The City Services Auditor team had set out to review 324 (roughly 16 percent) of the approximate 2,000 gift fund expenditure transactions, but Laguna Honda claimed it could not find supporting documentation for 112 [fully 35 percent] of the 324 expenditure transactions, so the Audit Team only reviewed 212 transactions — roughly 10 percent of the 2,000 transactions. The final audit report **did not indicate** why the Audit Team did not then ask for replacement transactions for which documentation **could** be found, in order to keep the “statistical sampling pool” at 16 percent of the 2,000 transactions.

² Shortly after she began her opening remarks, it became clear Ms. Lediju was very nervous on December 3, much more so than during her September 28 presentation to the same body, the LHH Joint Conference Committee, and much more so than during a subsequent hearing before the Citizen’s General Obligation Bond Oversight Committee on February 3, 2011. In what follows, she stutters and stammers, and factually misspoke, misread, or misquoted from the PowerPoint presentation she presented December 3.

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Speaker	Comment
	<p>it takes time to get the audit out, because of those standards that we're required to follow.</p> <p>Um ... the basis of our audit came about because in the recent months, the public and the media have raised questions concerning the management of the Laguna Honda gift fund.³ Specifically, that allegations that there was misappropriation of charitable donations³ [spent] for staff support, misappropriation of interest earned from donations for patients, business income and fees claimed as donations, and inappropriate use of patient funds [spent] for staff expenses, [and] the charging of apparent operating expenses to the patient gift fund.</p> <p>Those allegations came in through a formal whistleblower complaint that was "cc'd" to my office — I'm responsible for the Whistleblower Program — and sent to the Ethics Commission.</p> <p>Our Whistleblower Team <u>did not</u> do an investigation on those [Whistleblower] complaints, because it was sent to the Ethics Commission, and they were already in the process^{4, 5}.</p> <p>About five months later, as a result of the Whistleblower complaint, the [San Francisco City] Controller requested that my team⁶ perform an audit of the Laguna Honda gift fund⁷. And we</p>

³ Nowhere during the December 3, 2010 LJJ-JCC meeting did Ms. Lediju ever address the allegations of "misappropriation" of funds. Indeed. In a quite clever piece of editing, the November 22, 2010 Audit Report itself did not refer to the allegations as "misappropriations"; instead the November 22 Audit Report referred to the charitable donations spent on staff and the interest earned deposited into to staff accounts merely as "appropriations," not "misappropriations." And the November 22 audit report also **never addressed whether actual misappropriation had occurred**.

⁴ There does not seem to be any legal justification in the legal text of Proposition C in the San Francisco voter guide that voters passed in November 2003 that permits the Whistleblower Complaints program to "opt out" of conducting a concurrent independent investigation from an Ethics Commission investigation, **unless** the Ethics Commission **states in writing** that "investigation by the Controller would substantially impede or delay [the Ethics Commission's] own investigation of the [whistleblower complaint] matter" (per paragraph 107(a)(4) of the Legal Text of Proposition C). In response to a public records request placed on New Year's day 2011, on January 13 Nicholas Delgado, an Associate Auditor who works in the Controller's Office for Ms. Tonia Lediju, responded to the records request, but **failed to provide any written documentation from the Ethics Commission** indicating that a concurrent investigation by the Whistleblower's Program would impede the Ethics Commission's own investigation. This suggests that the City Controller Office's decision **not to** pursue its own Whistleblower Program investigation when it received the patient gift fund whistleblower complaint in March 2010 may have been made in error, and may not have been made in consultation with the Ethics Commission. Instead, the Controller's Office response provided on January 13 provided a standard, boilerplate document declining to provide records, claiming a whole host of moot, irrelevant reasons to now choose to withhold providing records, but didn't address paragraph 107(a)(4). The failure to provide written documentation from the Ethics Commission requesting that the Controller's Office **not** concurrently investigate LHH's patient gift fund whistleblower complaint cannot be considered "attorney-client privileged" information. Lediju's assertion her Whistleblower Team didn't investigate simply because the Ethics Commission **may have been** involved in a separate process is remarkable because it's specious.

⁵ Regarding the City Controller's response I received from Nicholas Delgado on January 13 described in footnote 4 above, I specifically asked in a follow-up inquiry on January 14 whether Nicholas Delgado's response meant he was saying that there were no written correspondence of any kind between the Whistleblower Program and the Ethics Department that dealt specifically with the gift fund whistleblower complaint. Ms. Lediju — Mr. Delgado's apparent boss — replied by e-mail on January 21 saying:

"The Whistleblower Program does acknowledge that there are communications which occur routinely with the Ethics Department. However, we can not disclose whether or not there were any communications related to the Laguna Honda Hospital gift fund complaint. **The core mandate of all whistleblower programs is protection of whistleblower identities** [emphasis added]. This includes any information that might disclose or lead to the identification of the original whistleblower as well as anyone that has participated in interviews/discussions related to the fact finding surrounding the complaint. All participants in the complaint resolution process are afforded the protections outlined as a 'whistleblower'."

Lediju's response is preposterous, precisely because the whistleblowers in the LHH patient gift fund case — Drs. Derek Kerr and Maria Rivero — had made their whistleblower complaint very public all along, so there was no need to try to protect their identities.

Speaker	Comment
	<p>issued our report November 22, 2010, which is [available] on our web site. And our scope work was during the period of ... it commenced September 1, 2010. So it [the Gift Fund Audit] was [took] a couple of months [to complete]⁸.</p> <p>The purpose of this audit was to determine whether Laguna Honda administered the gift fund in accordance with the San Francisco Administrative Code during the period from November 1, 2004 to June 30, 2010. And as I explained earlier, our audit universe was 2,000 expenditure transactions, and we did a statistical sampling to determine how many transactions we should actually test. And with regards to the 50 donations that were in the staff-related [sub-account] funds [in the patient gift fund], we tested all 50 donations, 100% testing for the six-year period.</p> <p>To conduct the audit, the Audit Team used typical procedures, policies, [and] administrative codes. We looked at the adequacy of the Laguna Honda's internal controls over the gift fund.</p> <p>Um ... on a sample basis, gift fund expenditures are [inaudible] to look at the supporting documentation that was available to determine whether Laguna Honda administered the funds in accordance with the Admin Code policies and procedures that were in place. Um ... and as I stated earlier, we looked at all donations that were in the staff funds.</p> <p>And so ... on this particular slide⁹, we have the gift fund balances¹⁰. And, as we all know, the gift fund is fully funded by contributions from donors and the interest earned, or investments held. And as of June 30, 2010 investments held were valued at \$135,000-plus¹¹. And the following exhibit details the audited gift fund activity during the period under the audit.</p> <p>And, as we can see, the audit covered six fiscal years — 2005 to 2010. Over this period, the gift fund decreased from \$2.15 million to ... I'm sorry, \$2.15 million to \$1.72 million, approximately [a decrease of] about \$430,000¹².</p> <p>This translates into a decline of approximately \$72,000 per year¹³ .. While currently declining, the fund appears to be in good condition.</p> <p>So we didn't find the activity unusual¹⁴ from ... [inaudible] that six-year period.</p>

⁶ Lediju appears to have been referring to her CSA Audit Team, not the Whistleblower Program.

⁷ Lediju offered no explanation of why — if the Ethics Commission was already “in the process” of investigating the Whistleblower complaint — or what made, the City Controller eventually and suddenly decided five months later to have the CSA audit LHH's gift fund, after all.

⁸ Initially, the audit was scheduled to begin on September 1, which was to be completed and released to the public at the end of October 2010. No explanation was given as to why it took almost three months before the delayed audit report was finally released to the public at the end of November 2010.

⁹ Slide #4, *Gift Fund Balances*, a screen capture of which is shown on Page 24 of this transcript.

¹⁰ A detailed analysis of Lediju's Slide #4, *Gift Fund Balances*, begins on Page 25 of this transcript.

¹¹ Ms. Lediju misspoke on December 3. Slide 4 shows that investments held on June 30, 2010 were valued at \$835,307, not \$135,000. But there is no comparative data showing the valuation of investments at the end of any other fiscal year, so it isn't yet known whether the \$835,000 is up, down, or “sideways” from previous years.

¹² Lediju did not note that the \$432,398 decline across the six-year period represents a 20.1 percent change decline in the health of LHH's patient gift fund, as shown on Page 25 of this Transcript.

¹³ Lediju was referring to the average annual **decline** across the six-year period, but she did not address the **increase** in FY '09–'10 shown in Figure 3 on Page 25 of this Transcript and in Table 1 on Page 26.

Speaker	Comment
	<p>During the audit ... During the period under the audit, the annual contribution income [the “Donation” line on Slide #4] remained consistent from year to year, and averaged \$115,000¹⁵. However, contributions declined slightly in ... probably because of our economic status ... um ... condition of our ... of the United States, probably contributed to that.</p> <p>Then, the annual Income and Adjustments — which is comprised of dividends, and interest income, and the annual accounting entry to record unrealized gains and losses — averaged approximately \$110,000 from year to year^{16, 17}.</p> <p>As this amount is subject to market trends, it may fluctuate from year to year, as seen by the low [of] approximately \$20,000 in fiscal year 2005 and a high¹⁸ of \$164,000 in 2008. So as we know, market trends make a difference of how ... um ... the valuing of the money in our account.</p> <p>It can be seen that the annual expenditures [the Disbursements line] increased annually during each fiscal year, through fiscal year 2010^{19, 20, 21}. However, the increases were not</p>

¹⁴ While Ms. Lediju may not have found the six-year activity “unusual,” other observers have noticed **several unusual trends**, explained below and discussed on in the graphs and analysis on Pages 25 through 28 of this Transcript.

¹⁵ The annual “contribution income” Ms. Lediju was referring to is the “Donations” line on Slide 4. Donations averaged \$116,462 annually across the six-year period, not \$115,000 as shown in Figure 4 on Page 26. Lediju did not find it “unusual” that in FY 2008-2009, Donations received were \$51,180 less than the \$116,000 average, and in fiscal year 2009-2010, Donations were \$26,126 less than the \$116,000 average, which interested observers find are unusual declines for both fiscal years, let alone hardly “consistent.”

¹⁶ The \$110,000 average Income and Adjustments is also unusual, as shown in Figure 5 on Page 27 of this Transcript. Ms. Lediju did not comment on the fact that in fiscal year 2009-2010, Income and Adjustments were nearly double the \$110,000 average, at \$206,937. She offered no explanation why the dividends, interest income, and unrealized gains and losses were \$97,288 **more** in FY 09-10 than the \$110,000 average, nor did she comment on what may have caused the sudden spike in Income and Adjustments.

Additionally, although Lediju stated annual contribution income to LHH’s gift fund remained “consistent from year to year” — even though there was actually a significant **spike** in LHH’s gift fund Income and Adjustments in FY 09-10 — she did not comment on how this stands in sharp contrast to the 11 percent **decline** in charitable donations to the nation’s 400 biggest charities during 2009. The 11 percent drop in nationwide giving was the worst decline in the two decades since *The Chronicle of Philanthropy* started ranking charitable giving. Lediju offered no explanation why income to the LHH gift fund had either remained consistent across the years — or had significantly spiked in 2009–2010 — in the face of the U.S. decline in charitable giving.

¹⁷ The \$110,000 average Income and Adjustments drops to just \$80,236 when the Income and Adjustments are corrected to eliminate the \$176,481 improperly transferred from patient accounts to a capital account and then returned as a result of the audit, shown in Figure 6 on Page 27 of this Transcript, **which portends a 79.2 percent decline in Income and Adjustments** in the single year between FY ‘08–‘09 and FY ‘09–‘10. Also see Footnote 26.

¹⁸ The high was **not** \$164,000 in 2008 as Lediju incorrectly stated; the high was \$206,937 in 2010. Lediju did not explain how the low of \$20,000 in fiscal year 2004–2005 (when the economy was in much better shape before the economy went sour in 2007 to 2008) would have “fluctuated” to an almost \$200,000 **increase** to Income and Adjustments (a.k.a., Dividend and Interest income) to the high of \$206,937 six years later in 2010, when the economy is still in the dumps given the “jobless recovery” still underway.

¹⁹ Lediju factually misspoke. Disbursements did not **increase** in 2010; in fact, between fiscal year 2008-2009 and 2009-2010, Disbursements **decreased** by a staggering \$126,544 — a 37.9 percent change **decline** in Disbursements; **see Figure 7 on Page 28 of this Transcript**.

The decline in Disbursements between 2009 and 2010 is thought to be directly tied to the drop in the number of bus trip outings for patients (see my [Examiner.com article](#) on June 27, 2010, in which I reported a **66% reduction in the number of residents** who participated in bus trip outings between January 1, 2009 and April 30, 2010, for which LHH eventually received a State citation for having curtailed bus trips for patients).

The cutback in Disbursements in 2009-2010 may also be related to the great “gift fund bankruptcy panic,” a rumor spread in October 2009 by LHH staff such as nurse Bronwyn Gondogdu, among others. Gondogdu is a Nursing Supervisor at LHH, who asserted on

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Speaker	Comment
	<p>drastic²², as I stated earlier, with the exception of 2007. <u>And this amount includes a journal entry of approximately \$176,000</u>, which represents a transfer from patient funds to clear a deficit ... a cash deficit, in capital project funds.</p> <p>So the money ... the actual [fiscal year 2006-2007] \$176,000 expenditure ... or ... transfer was not an expenditure, but an actual cash transfer to cover a [negative] balance²³.</p> <p>However, during the course of the audit, these [\$176,000 in] funds were returned to the patient account²⁴ and is included, as you note, in the fiscal year 2000²⁵ Income and Adjustment total of \$260,000 ... err, \$206,000²⁶. And we'll talk about this a little more in our finding [Audit Finding Number] of 1.2 of the report²⁷.</p>

October 22, 2009 in an e-mail to whistleblower Dr. Maria Rivero, that the gift fund faced a “serious funding scarcity.” Readers may want to note that in calendar year 2010, Ms. Gondogdu earned \$188,635. Clearly, the “funding scarcity” did not apply to her salary.

²⁰ The \$207,533 in Disbursements in fiscal year 2009-2010 was the **lowest** amount of gift fund spending during the six-year period of the years audited, and was \$90,644 **less than** the average \$298,177 annual Disbursements averaged across the six-year period.

²¹ Since Lediju’s Audit Team only reviewed documentation that could be found for 212 of the approximately 2,000 total disbursement transactions across the six-year audit period, there is no explanation given as to how much of the actual Disbursements were spent improperly on staff, versus the amount of Disbursements actually spent on Laguna Honda Hospital’s patients.

²² The 37.9 percent change noted in footnote 19, above, can only be seen as a **drastic** decline in gift fund Disbursements. As shown in Figure 7 and Figure 8 on Page 28 of this report, **the Disbursement decline in FY ’09–’10 was indeed a drastic change.**

²³ Although Lediju attempts to claim the \$176,000 was not an “expenditure” from patient funds, no matter how much she may desperately want to split hairs, using patient funds improperly for a “transfer” is still an “expenditure” of funds transferred out.

²⁴ A key point is **when** the \$176,481 error was identified and returned to the patient gift fund, which remains clouded in mystery. Documents received from records requests placed after this December 3 meeting of the LHH-JCC show Lediju may have been correct that the \$176,481 was returned **during the course of the audit** (the records show the transfers were returned somewhere between September 20 and September 27). For their part, Drs. Kerr and Rivero had raised this red flag on September 16, 2010, but others alternatively claim Navarro either found it on September 6 **after** the audit had commenced, or Navarro brought it to the Audit Team’s attention on day one of the audit, on September 1. Navarro **did not** mention it during the September 28 LHH-JCC meeting, and in an e-mail on September 6, Navarro said she needed “help understanding” the transaction. But elsewhere DPH’s CFO, Gregg Sass, indicated all restitution to patient gift fund sub-accounts was made **before** the audit commenced on September 1. In fact, the \$176,481 restored to the gift fund is recorded in the City’s “FAMIS” accounting system as occurring on September 27, 2010, not in June. Interestingly, a separate \$56,209 transaction also appears to have been restored to the patient gift fund on September 27, 2010, which Sass testily claimed in an e-mail to Dr. Kerr on December 8, 2010 “is not another transfer from the gift fund, but rather is just a clean-up, funds in and out, within the gift fund.” The \$56,209 transaction seems to have come from the same “capital project” account as the \$176,481 restored from a capital account, not from **within** various “in-and-out” gift fund sub-accounts.

The additional \$56,209 restitution is not mentioned anywhere in Ms. Lediju’s CSA audit report dated November 22, 2010, so it is unclear whether LHH was forced to retribute \$350,000, or a higher amount of \$400,000, in improper gift fund transactions. Sass appears to have initially claimed the \$56,209 didn’t need to be reimbursed, but Mr. Delgado provided records on January 13 showing the \$56,209 was apparently returned to the patient gift fund on September 27 also from an account to cover a deficit in a capital account, just as the \$176,481 had been restored from an improper transfer to a capital project.

²⁵ Lediju misspoke; she was referring to 2010, not 2000.

²⁶ The \$176,481 Adjustment in 2010 to correct the improper transfer of patient funds into a capital account in 2007 then reduces the \$206,937 Income and Adjustments for fiscal year 2009-2010 to just \$30,937, the lowest Income and Adjustments since fiscal year 2004-2005 — a whopping \$115,176 less than the \$146,113 Income and Adjustments from a year earlier in 2008-2009, which by most standards **is** another **drastic** change, not the “not drastic” changes Lediju asserted earlier in her presentation.

²⁷ It should be noted that Ms. Lediju raced through her verbal summary of Slide #4, Gift Fund Balances on December 3 — covering the Beginning Fund Balance, Donations, Income and Adjustments, Disbursements, and Ending Fund Balance — within two to three minutes; this hardly does justice to the five categories examined in Lediju’s November 22 Audit Report. Notably, **Commissioners Illig and Mela raised not one question about the data on Slide 4 on December 3** regarding any of the five categories, nor did they ask any questions about Slide 4 or the five categories when the LHH-CC suddenly met again on January 25, 2011.

Speaker	Comment
	<p>[Next slide²⁸.] In general, Laguna Honda needs to improve its administration of the gift fund, specifically gift fund policies and procedures on donations and expenditures; return all remaining gift fund donations and interest of \$18,000-plus; return operating income of \$5,000-plus to Laguna Honda’s operating account; [and] estimate the potential interest that would have been earned on a principal balance of \$176,00-plus from fiscal year 06 [2006] to fiscal year 10 ... 09 [2009-2010], and transfer that [interest] amount to the gift fund [to patient gift fund sub-accounts]²⁹.</p> <p>And the report included 10 findings and about 20 recommendations to improve the administration of the gift fund.</p> <p>How it relates to the monetary findings, the Audit Team reviewed total contributions³⁰ in all staff-related sub-accounts of \$192,000-plus. And ... of this total, Laguna Honda incorrectly recorded \$151,000-plus into staff-related sub-accounts. Prior to the audit, Laguna Honda — after conducting an internal review of their own gift fund — corrected and returned \$127,000-plus to patient-related sub-accounts.</p> <p>The errors were comprised of:</p> <ul style="list-style-type: none"> • \$370,000-plus³¹, representing two checks specifically designated to reimburse patient-related activity; • \$17,000 of checks mostly from filming and production companies; • \$5,000 in operating income recorded as donations to staff accounts; and • \$1,200 recorded to staff-related sub-accounts, but amounts were not explicitly designated as staff-related. <p>So as Audit Staff, we made some judgment calls there; we used “auditor judgment,” as we would say in our profession.</p> <ul style="list-style-type: none"> • And \$9,000-plus³² in accumulated interest [earned interest that was] misallocated to staff sub-accounts.

²⁸ Before leaving Slide 4 on the **Gift Fund Balances**, Ms. Lediju offered not one word of explanation as to why the City keeps retroactively changing the “**Ending Fund Balance**” in the patient gift fund. In June 2010 Deputy City Controller Monique Zmuda and her assistant, Alan Pavkovic told observers in response to public records requests that the gift fund’s ending balance as of June 28, 2010 was \$795,126. On September 28, 2010 — approximately three weeks into the City Services Auditor’s work — LHH’s former CFO, Tess Navarro, stated that the gift fund balance was \$1.59 million. Two months later, when Lediju issued her audit report on November 22, the gift fund’s Ending Balance shot up to \$1.72 million. **Why does the City keep retroactively changing the gift fund’s June 30, 2010 ending balance?**

²⁹ As of January 15, 2011, it is not yet known how much interest was calculated, or returned, to the patient gift fund.

³⁰ Lediju is referring to all 50 donations into the staff sub-accounts that had been wrongly — and potentially illegally — set up within the restricted-to-patients gift fund. A public records response received on January 13, 2011, shows that of the 50 deposits into the staff sub-accounts, 25 (fully half) of the deposit transactions had been improperly recorded and deposited. That’s not only a grade of “F” for failing to properly record half of all deposits, it also constituted 80 percent of the total amount of funds wrongly deposited into staff sub-accounts. If half of the transactions had been made improperly, what does this portend about other potential accounting problems in other areas of LHH’s budget that are overseen by the same hospital administrators?

³¹ Lediju again misspoke; she was referring to her Slide #6 describing two checks that totaled \$37,102 (that Dr. Katz had infamously claimed on September 2, 2010 were the **only** two errors with the patient gift fund), not a total of “\$370,000-plus.”

³² Lediju misspoke again; she was referring on Slide #6 to the **\$90,257** in interest earned that was returned from improper deposits into staff-related sub-accounts to patient-related sub-accounts, not “\$9,000-plus.”

Speaker	Comment
	<ul style="list-style-type: none"> • In fiscal year 2006, \$176,000-plus was transferred from patient-related gift fund sub-accounts to correct a negative balance in ... um ... the Laguna Honda capital projects [account]. And as I stated earlier, this amount has since been returned [to patient sub-accounts]. <p>And ... um ... while this did occur, Laguna Honda staff did not do this solely on their own. There was collaboration between Laguna Honda and the [City] Controller's Office [at the time the \$176,481 was initially transferred to Laguna Honda's capital fund in 2006], just as it was collaboration to get this item corrected [and returned to patient-related sub-accounts].</p> <p>We have several Internal Control-related findings [on Slide #7]. And what we found was:</p> <ul style="list-style-type: none"> • Laguna Honda did not adequately involve the Health Commission in the monitoring and oversight of its Gift Fund and did not consistently administer internal policies regarding the recording of expenditures.³³ <p>And ... the oversight of the Health Commission is designated and required by the [City's] Administrative Code.</p> <p>[Laguna Honda:]</p> <ul style="list-style-type: none"> • Did not include³⁴ staff development subaccounts in the Gift Fund, which was originally meant only for the benefit of patients. • Did not actively manage its Gift Fund activity, including its portfolio of stock bequests. • And did not maintain documentation supporting the purpose of restrictions on donations³⁵. • And did not maintain supporting documentation for some³⁶ Gift Fund expenditures.

³³ Lediju was being too kind in saying "LHH didn't adequately involve" the Health Commission. The **truth** of the matter is that six years ago, LHH **deliberately** cut the Health Commission out of the loop when former LHH Executive Administrator John Kanaley appears to have ushered through changes to gift fund policy and procedure #45-01, eliminating quarterly reports to the Health Commission. **This was a sin of commission, not a sin of omission**, as Lediju and Health Commissioner Jim Illig must surely understand by now. Although later in this meeting you'll see in the transcript that Illig claims he didn't know **when** the gift fund policy was changed, it is clear that Kanaley apparently ushered through changes — with or without Illig's foreknowledge or consensual adult permission. How could Illig have been ignorant of what Kanaley was up to? How could Commissioner Illig have missed **not getting** these quarterly reports **for fully six years** before Lediju's audit brought it to his attention? How could Illig have not noticed that LHH had stopped adequately involving Illig's own Health Commission, since Illig was president of the Health Commission during much of this time? As Health Commission President, **didn't Illig ever notice independently** that the Health Commission wasn't being properly consulted?

³⁴ Lediju misspoke yet again; she was referring to the second sub-bullet on her Slide #7 which indicated that Laguna Honda **had** wrongly created staff sub-accounts within the patient gift fund, not that Laguna Honda did **not** include staff sub-accounts."

³⁵ Observers concerned about the administration of Laguna Honda's patient gift fund suggested in June 2010 that LHH be required to post on its web site, each of the patient-related gift fund sub-account's purposes and restrictions on use of funds, but as of January 2011, LHH has not implemented any such policy, and hasn't posted such information to its web site.

³⁶ The use of the term "some" by Lediju is **obfuscation at its worst**, if not cheesy. That LHH could not locate supporting documentation for 35 percent of expenditures, what else does this say about improper accounting practices in other areas of LHH's budget beyond its patient gift fund? And again, why didn't the CSA Audit Team simply increase the sampling pool to examine expenditures that did have supporting documentation available? "Some" is a bald way of saying that fully one-third of fund expenditures examined didn't pass a smell test. Typically auditors quantify data **using number or percentages**; auditors typically don't resort to using words like "some" that can be used as an adjective, pronoun or adverb to quantify data points.

Speaker	Comment
	<p>Um ... as it relates to our comment regarding the review of investments — and what we’re most concerned about — for good business purposes ... we’re asking that the hospital consistently, on a periodic basis, instead of just at year-end, review the bequests, review the stock. And we’ve never indicated that the fund was “at risk.” We don’t believe the fund is “at risk,” but we’re just saying these are good business practices. And, we’re also ... with regards to the staff ... You know, there are times that as a Commission, as finance individuals, you may decide ... you may ... would like to sell the stock because it’s advantageous to do so. Various things could happen during that point in time. And so we’re just asking [that you] consider all those things. But at no time did we believe that the [gift] fund is “at risk,” [or] has been “at risk.”</p> <p>We’re not saying that. They’re not at some point ... [inaudible]. We would like some type of continual review that would come into play. Whether it’s between you and Van Morris ... some type or report saying, “We’ve reviewed in these intervals, and this is what we found [inaudible] and [here’s] our recommendations.”</p> <p>In regards to our comments ... um ... which was specifically in our report stating that we did not receive supporting documentation for 35% of the 324 sample expenditures ... um ... selected for testing. While most of the records for the last several years we were able to receive, the staff had done a much better job of maintaining proper records during the last several years. And we found that ... um ... records were not as ... maintained as well as they could have been in the latter years, but the staff seemed to have done a much better years ... um ... a better job of maintaining [records] in the last several years. And we appreciate that.</p> <p>And one of the things that I’d like to remind the auditee [Laguna Honda Hospital] and those who read our report is that ... you know, our job ... we do compliance³⁷ audits. In some respects, this is a compliance audit. And what we look at is, we look at the criteria and we say, “Are you doing what you say you’re doing based on the criteria?” So this is what this [Laguna Honda gift fund] audit is: It’s a compliance audit.</p> <p>And, we were saying based on this criteria ... based on the expenditures we reviewed, the donations we reviewed, here are our findings for this limited period of time.</p> <p>So as a result of our work we asked ... we recommended 20 recommendations to Laguna Honda to improve the administration of the Gift Fund. And specifically, we’ve asked [Laguna Honda to]:</p> <ul style="list-style-type: none"> • Reclassify all Gift Fund amounts not explicitly designated for and recorded in staff development sub-accounts into patient-related sub-accounts. • Discontinue recording operating income as Gift Fund donation revenue.

³⁷ Lediju repeatedly says the audit of Laguna Honda’s patient gift fund was a **compliance** audit. But the legal text of Proposition C that voters passed creating the City Services Auditor (CSA) function that Ms. Lediju now manages, specifically **“requires that the Controller/CSA perform comprehensive financial and performance audits,”** not “compliance audits.” And instead of performing a comprehensive financial audit, the CSA performed only a **statistical sample** audit of LHH’s patient gift fund transactions.

CSA set out to examine 16% of gift fund expenditures, but it was cut back to only 10% of all expenditures when LHH claimed it couldn’t find supporting documentation for 112 of the initial 324 expenditures in the planned “sample pool” (see footnote #1). Ms. Lediju asserted in a CGOBC sub-committee hearing on February 3, 2011 that “similar” transactions to transactions that were missing actual supporting documentation had been found in the City’s FAMIS accounting system, so the auditors were satisfied the sample pool had found similar transactions. Isn’t that a little like saying a tangerine appears “similar” to an orange (in the mirror), and so things are just hunky-dory? Some observers interpret the failure to maintain the planned 16% “statistical sample” pool with transactions for which actual documentation **could be found** (rather than just then finding transactions “similar” to transactions with documentation that could **not** be found) to be a **“convenience sample”** reduction to convenience the Audit Team.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<ul style="list-style-type: none"> • Work with the Health Commission to implement detailed policies that ensure the Gift Fund complies with all applicable City codes. <p>And while we realize that on an annual basis the hospital provided an annual report to the Board of Supervisor’s, that report is not sufficient for ... um ... to meet the standards with the Commission, because there needs to be a way that the expenditures, or potential expenditures, for the year based on a baseline that you know you’re going to have certain expenditures, should be approved ... or there should be this continuous reporting so that you have some mechanism of questioning in-depth what expenditures are here, how the income is coming in, so forth and on.</p> <ul style="list-style-type: none"> • Again, please think about actively managing its Gift Fund activity, including its investments. • Develop procedures for properly acknowledging and classifying all Gift Fund donations. • Develop controls to ensure that all Gift Fund expenditures conform to prescribed payment policies. • Indicate in its Gift Fund policy the specific eligible expenditures allowed. <p>And one of the things that I’d like to end with is ... We fully recognize that ... um ... this particular fund has many sub-accounts. Many things going on with the accounts. And when you look at the big scheme of things, the big picture in terms of the dollar value, while it may not be large compared to the total budget of the organization, we still need to ensure that we have proper internal controls in ... to come through with a methodology that will work for the entire organization for expense accounts. It’s our goal ... overall goal for the audit it ... for the recommendations and purposes of the gift fund. So ... thank you.</p>
Sass	<p>I’ll just make a couple of comments on this [inaudible]. I think that ... First off, we appreciate the hard work of the Audit Team ... [inaudible] of the gift fund. We appreciate the recommendations and comments.</p> <p>Um ... I think one of the ... I think really we could ... I would say we concur with most, if not every single recommendation, we certainly concur with most of the recommendations [inaudible]. I want to just ... you know, draw attention to just one comment in the report, which we believe is very meaningful and important and that is [inaudible] in the gift fund report, which is on page 19.</p> <p>I think it speaks to the issue of whether ... um ... the gift fund was used to pay for staff activities or whether the staff activities [inaudible]. On page 19 it states that for the sample of expenditures reviewed, the Audit Team found that Laguna Honda charged patient gift fund expenditures to the patient sub-accounts, and charged staff development gift fund expenditures to staff development sub-accounts³⁸.</p> <p>And I think that is consistent over all of the years they reviewed over many years. So the issue that ... I think ... or the allegation that somehow we were diverting money from patients ... or were using patient gift funds to ... for staff activities and somehow depleted [inaudible]</p>

³⁸ First, Mr. Sass appears to have ignored Ms. Lediju’s second sub-bullet on Slide #7, which indicated that Laguna Honda had wrongly created the so-called “staff development” sub-accounts within the patient gift fund. Whether or not staff expenditures had been charged against the staff sub-accounts (as the Audit Report alleged on page 19) is **not the relevant issue**, because the staff sub-accounts should **never** have been created within the restricted-to-patients gift fund in the first place, since doing so violated the City’s Administrative Code. Second, Sass blatantly ignored the subsequent page 22 of the Audit Report, which stated that the Auditor’s were not able to determine “in many cases” whether expenditures had been made from the appropriate sub-accounts.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<p>in the gift fund is truly [inaudible].</p> <p>The other ... um ... the other point that I think is important to make here is that ... um ... that there has never been a shortage in the gift fund at any point in time³⁹, even with some of the accounting errors that have occurred over the six-year period. There's never been any point in time where there's been any inability of the Hospital to ... to fund ... um ... ah ... patient-related activities, to the extent of ... desire to [inaudible].</p> <p>The ... um ... most of the accounting adjustments that are discussed in the gift fund ... in the audit report in this presentation ... most of the adjustments were made ... um ... with our closing of our books June 30 last year. The adjustments were identified before⁴⁰ the Audit Team [inaudible] ... With virtually every instance ... With ... We were ... um ... with very few exceptions in the small balance, a few adjustments had to be made, but were relatively minor⁴¹. But all those adjustments had been previously identified, disclosed, corrected. And they're really not substantial ... um ... financial problems as reported ... [inaudible].</p> <p>So I feel very badly about the errors that were made, but looking back over a six- ... seven-year period, and it's probably useful for people to keep in mind that our accounting staff — which is not large at Laguna Honda — um ... is managing a \$200-million a year operation here, 24/7. Is managing a \$500 million rebuild program over a ... over many years, in addition to a \$2 million gift fund. So, that's not a defense, and it's not an excuse, and it's not a ... intended to diminish the importance ... [inaudible] ... of the gift fund.</p> <p>But I think it's ... I think that the reality is, the truth is, is that our focus in our accounting operations has to be [inaudible] focused appropriately on ... you know, making sure that we're able to bill and collect for services [inaudible] that our cost reports for the activities at the hospital ... [inaudible].</p> <p>So. So ... um ... we are ... um ... Basically we feel that we have made a number of changes to policies and procedures already... um ... and there are some more down the street that we will need to make [inaudible].</p> <p>Our plan is to bring back a detailed policy to [inaudible] to the Health Commission ... to this [sub]committee for your review, and hopefully approval. I think you could take a vote of</p>

³⁹ Mr. Sass's brazen attempt to claim that the Hospital was never **unable** to fund patient-related activities is remarkable, given the State citation against LHH on May 19, 2010 for having curtailed bus trips, and my reporting on Examiner.com on June 17, 2010 that bus trip outings for patients had plummeted 66 percent [[Examiner.com article](#)].

⁴⁰ Although Sass appears to imply that the accounting adjustments were made **prior to** the closing of the books for fiscal year 09–10, the reality is that the books are not closed for several months following the end of any fiscal year, usually three months after the close of the fiscal year. In addition, it appears that the "adjustment" to correct the \$176,481 wrongly transferred from the gift fund to a capital account, and another "adjustment" of \$56,209 made on the same date, did not occur until September 27, 2010, well into the two-and-a-half month gift fund audit conducted by Lediju, so Sass' implication the adjustments were made **before** the Audit Team showed up on LHH's front doorstep is laughable.

⁴¹ Mr. Sass's attempt to downplay the significance of the lack of internal controls Lediju criticized is astonishing. Having to reconstitute upwards of \$350,000 was **not** a "relatively minor adjustment" as he claimed, particularly since fully half of the 50 deposit transactions into staff sub-accounts — involving 80 percent of funds incorrectly directed to staff accounts — were found by the CSA audit to have been improperly recorded. As noted in Footnotes 24 and 30, If Sass considers these errors "minor," what other accounting errors throughout DPH is he also calling "minor"? And if half of the deposit transactions were improperly made, what other accounting errors are being permitted by LHH administrators in other sections of LHH's budget?

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<p>approval.</p> <p>I think the biggest mistake made⁴² [was] in the area of governance ... has been somewhere along the line ... I think the administration here at the hospital had lost track of the requirement that the Health Commission approve ... the original ... um ... um ... Administrative Code requiring Health Commission approval of changes of policies.</p> <p>Somewhere along the line, that that ... over many years [inaudible] lost track of it. So, [inaudible] the policies we implemented are necessarily deficient [inaudible] or defective, but it's just that they lack in the advice and consent [inaudible].</p> <p>So, for that ... I'm sorry for that, but I think it's something we [inaudible].</p> <p>We like the idea of [implementing a gift fund] budget each year that projects what we think we're going to need in terms of expenditures.</p> <p>Um ... we have never limited our expenditures for patient activities based on the amount of money coming in, in the form of donations. I ... [inaudible] patient comfort [inaudible] patient comfort [inaudible]. The fund, as it [is] currently structured ... if we were to continue to lose ... ah ... if we were to continue to spend \$70,000 a year greater than what is coming in, the account would still have a 23-year expected life for [inaudible], a concern to me. That is, essentially ... I think, the main comments I wanted to make. You know, I'm certainly happy to answer questions about anything.</p>
Melara	Ms. Hirose, do you have any concerns?
Mivic Hirose, RN; LHH Executive Administrator	I concur with what Gregg [Sass] said ... um ... from my time as Executive Administrator [inaudible] the [inaudible] [gift fund] policy and procedure [changes] that we did in April [2010], did incorporate tightening of some of the ... of our policy and documentation [inaudible] that speaks to what [inaudible] later years [inaudible] procedures for that. We will go back and revise ... based on the [Audit Report] recommendations here [inaudible].
Melara	Thank you.
Hirose	Um ... Commissioners ... I neglected to introduce ChiaYu Ma. She's just so part of our Executive Committee for the past couple of years. Chia has been with us for two years now. She's our Budget Manager. And ... uh ... she's stepped up as our interim Chief Financial Officer while Tess [Navarro] went to MTA [Municipal Transportation Agency]. She started her job as interim ... she welcomes your first JCC [meeting].
Jim Illig, Health Commission President ⁴³	So one question I have is [regarding the Audit Report recommendation to] "discontinue reporting operating income as gift fund donations." What is "operating income"? What's an example of operating income?
Unknown Speaker	It's actually rental income.
Illig	Rental income?
Unknown Speaker	So ... um ... apparently one of the halls was used for a choir to come in and practice ...
Illig	Uh huh ...
Unknown Speaker	And so they were paying rental income every month.

⁴² Mr. Sass may have been too polite to state that the **biggest mistake** made may have been when LHH's administrators started to think in 2004 that the \$2 million patient gift fund was a slush-fund account they could raid for staff use and not get caught at. The **other big mistake** is that LHH administrators did not anticipate a Whistleblower complaint would be filed over potential misappropriation of funds intended to benefit patients, and that political pressure from the West of Twin Peaks Central Council and media coverage on Examiner.com and on KGO TV (KRON, Channel 7, ABC), would result in an audit being ordered, which clearly-flawed audit nonetheless resulted in **at least** \$350,000 being restored to gift fund sub-accounts for patient use.

⁴³ Illig was Health Commission president on December 3. On February 1, 2011 the Health Commission held new elections, electing Steven Tierney, EdD as its new President and electing Sonia Melara as its new Vice President.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
Illig	I see. So that was misclassified as a donation?
Unknown Speaker	It was called “donations.”
Illig	But it is really operating income?
Unknown Speaker	Right.
Illig	<p>Ah ... and then Mr. Sass, I totally agree with what you pointed out on page 19 [of the Audit Report].</p> <p>There’s no question that the expenditures were properly coded⁴⁴. I think the real issue that the Audit brought up is the fact there were sub-accounts at all for staff in this gift fund is the problem. And that happened God knows when. I was on the JCC in 2004 when Larry [Funk] was [Executive] Administrator [of LHH] ... uh ... in John Kanaley’s time ... so I’m on the Commission with Mivic [as the hospital’s Executive Administrator]. I don’t know when that [the creation of staff sub-accounts within the patient gift fund] happened⁴⁵.</p>
Monette-Shaw	[Inaudible ... you were a Commissioner under Kanaley] when that happened.
Illig	<p>Um ... Patrick, this is not your time to talk. It’s my time to talk. And what I’m pointing out is, the original purpose of the gift fund was for patients. It wasn’t called the “patient gift fund.” But somebody, somewhere along the line stretched that to say “OK, doing stuff for staff does benefit patients⁴⁶.”</p> <p>That’s fine. That’s the kind of stuff that needs to come to the [Health] Commission. And, as long as I’ve been on the Commission, we have not been getting reports on this gift fund, nor have we gotten reports on changes to policies to the gift fund, if that’s what we were cited for [violating, by the State’s] Licensing [and Certification Division].</p> <p>So clearly, Mivic gets the message⁴⁷. These policies need to come to us [for approval prior to being implemented]; we need to approve them [the policy changes], and they’re not going to get changed until we approve a change.</p> <p>Uh ... the other thing I noticed is, in the past, and I think Tony Wagner talked about this last night⁴⁸ ... There was a patient Gift Fund Management Committee composed of ... I</p>

⁴⁴ There **are** plenty of questions that expenditures were **NOT** properly coded, as even the Audit Team and Ms. Lediju acknowledged. So why Illig wrongly leapt to this conclusion is amazing!

⁴⁵ That Illig didn’t know **when** this happened under Kanaley’s tenure speaks volumes about the fact that Illig and the Health Commission simply weren’t doing their oversight jobs and mandatory ministerial duties.

⁴⁶ Illig failed to note that the argument raised that improving staff morale by using patient gift funds on staff expenditures was OK because it may improve patient care was floated — and stretched — by former Director of Public Health, Dr. Mitchell Katz.

⁴⁷ There is nothing in this Transcript that leads readers to believe that Mivic Hirose has “gotten the message,” and there’s nothing in either this Transcript or other public records that explains why Illig may have wrongly leapt to the conclusion that Hirose or the current crop of administrators at LHH “gets” anything or have learned anything from Laguna Honda Hospital’s **Great Gift Fund Scandal**.

⁴⁸ Illig appears to be saying there was some sort of a meeting on Thursday, December 2, the night before the December 3 LHH-JCC meeting at which the LHH Gift Fund Audit Report was presented by the CSA Audit Team. The LHH staff present on December 3, and Health Commissioner Melara, collectively appeared to understand what Illig meant by “last night.” Tony Wagner was previously LHH’s Executive Administrator, and as recently as June 30, 2009, Wagner was still listed as being a member of the Board of Directors of **Louise Renne’s Laguna Honda Foundation**. Renne’s Foundation maintains close working relationships with both Laguna Honda Hospital itself, and with the Laguna Honda Volunteers, Inc. non-profit organization, the latter of which is an organization devoted exclusively to raising funds for Laguna Honda Hospital patients and support to Volunteers Inc’s volunteers, and which is a key fundraiser for the Laguna Honda Hospital Patient Gift Fund. Illig did not elaborate on why there had been a meeting the night before the Audit Report was presented to the LHH-JCC, nor did he elaborate on why Wagner may have been discussing composition of LHH’s Patient Gift Fund Management Committee. It is unknown how many other Health Commissioners and/or Laguna Honda Hospital management employees were at the meeting on December 2 that Illig referred to, or whether a behind-the-

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	guess staff, as well as some patients from the Resident Council. And, I'm just wondering ... I'm asking: Is that something you might want to reinstitute?
Hirose	<p>I'm gonna⁴⁹ ... um ... it's ... we are considering that⁵⁰ ... ah ... I ... we ... It's ... I had not participated in, [in] the 11 years I've been here⁵¹. And so it's something we need to be ... to start having this conversation [inaudible] as we revise ... we're 'gonna go through the [inaudible] first, and then we're going to concentrate on revisions of this ... um ... the more integrated we are at planning [inaudible] as Gregg is saying in terms of really planning ahead for the year ... thinking through now that we're going to be in the new Laguna Honda, what's ... what's ... what's the programming? What part is ... um ... operating income, what part is [inaudible] ... we provide from operating dollars and provisions for patient care.</p> <p>Ah ... and ... [inaudible] augment from the donations and in total ... in totality we need to figure that out ... ah ... we do have ... so ... ah ... different programming that ... uh ... that do connect to the sub-accounts.</p> <p>So that's something that we need to discuss, too, Commissioners, because ... um ... just as an example, when we have patients who are at end-of-life and then we have a Hospice [sub-account [in the patient gift fund]] ... and then ... so if there is a ... a activity that's related to just the Hospice program, does that preclude other residents at end-of-life [inaudible ... at end-of-life that may be living in other neighborhoods⁵². And then, so that's something that we need to ... um ... to have the discussion, and then work through, and look through, and read through the [City's] Administrative Code to make sure ... um ... to make sure that we're ... um ... addressing both the clinical needs and then the parameters of the regulations [inaudible]. So that's ... um ... those are the discussions that we're continuing to have at ... [inaudible]. An example: As part of our move is people ... um ... We have a program that has ... it would be great to have ... um ... Spanish pastries for one of our [Spanish-focus] neighborhoods. And so ... um ... but that's why I asked the question. Well, we also have patients ... um ... residents, who may like Spanish pastries, [but] are not living in that [Spanish-focus] neighborhood. So how do we then integrate that to the greater community of Laguna Honda? Because it is ... it affects ... [inaudible] it is from the gift fund, is for all residents at Laguna Honda.</p> <p>These are just examples I can think of as I'm sitting here. And ... so ... [inaudible] I want some discussion, case studies, presentations to ... what ... um ... what I've learned from this</p>

scenes meeting on December 2 may have involved a violation of California's Brown Act, which prohibits seriatim meetings (closed-to-the-public meetings when one member of a policy body privately contacts another, who then contacts another, in a chain of communication that eventually constitutes a quorum of the group).

⁴⁹ Ms. Hirose's stumbling, incoherent sentences in the following passages are an embarrassment to a manager and public civil servant at her level.

⁵⁰ In the passage that follows, Hirose never directly answer's Illig's question about whether patients will be restored as members on the Patient Gift Fund Management Committee. Instead, Hirose dissembles about needing to involve LHH's "greater community," apparently referring to staff members who may still need catered staff luncheons to boost their morale.

⁵¹ It is odd that Hirose implies that during the 11 years of her tenure at LHH — first as co-director of the Nursing Department, and later as LHH's single Director of Nursing — she was not involved in deliberations regarding changes to the gift fund policy, since the Gift Fund policy and procedure # 45-01 indicates that as of 2004, the Director of Nursing at LHH was a member of the Gift Fund Management Committee and presumably remained a member of that committee for six years, until the policy was changed in 2010. Since the Nursing Department at LHH has long battled for iron-fisted control of the hospital, it is inconceivable that John Kanaley would have been able to shut out a Nursing representative from membership on the Gift Fund Management Committee between 2004 and 2010.

⁵² Each of the floors in the new residential towers at LHH is broken up into four 15-patient "neighborhoods."

Speaker	Comment
	<p>is, we need to [inaudible].</p> <p>And we need to be looking at ... um ... projecting ... we need to be looking at budgeting. We need to be looking at, then, our spending, and then with the umbrella of “here’s the Administrative Code” and ... so our ... we need to be able to [inaudible].⁵³</p>
Illig	And I guess that ... I just want to re-emphasize, I’m very interested in hearing from you, when you do present the policies and procedures, how you are going to involve the residents ...
Hirose	Yes.
Illig	<p>... in the oversight and the input?⁵⁴ Because one of the things that this Department [of Public Health] does when it monitors contractors, it requires contractors to say “How are ... how is this ... [how is] your service ‘consumer-driven,’ and how are they [the service recipients] involved at all levels of administration and management of the service⁵⁵ [they receive]?” And I know the Resident’s Council here is [inaudible] strong relationship [inaudible].</p>
Hirose	<p>Yeah, and I can give you examples where that’s ... you know ... at an individual level or at a generic level. That’s already happening now and it ... maybe centralized, as we heard from the report. We have a resident who has Multiple Sclerosis, and she loves her computer. And over time, she’s not able to use her fingers anymore, so she’s in [inaudible] to improve her eye movement. And then ... so through the gift fund we did ... um ... spend that money so we could work with special adapters for her wheelchair and for her computer.</p> <p>And then ... and that might be something, as we move into the new buildings ... [inaudible] in terms of [inaudible]. So that’s ... on an individual basis, that’s where the gift fund has come forward ... ah ... where we use the gift fund ... um ... for ... um ... ah ... ah... the other day we had [inaudible] ... and then so through our Spanish-language program, they came forward and went to ChiaYu [Ma] ... they asked ... um ... you know, this is [inaudible] we want to celebrate. They did open it up to the [wider hospital] community, the Laguna Honda community, in the celebration of ... volunteers, staff ... ah ... residents, family members, that ... um ... celebrated. So ... so ... and that’s all part of the Activity Therapy program. And that’s part of their annual programming. So ... ah ... we don’t have that written out. I mean ... I mean ... it’s individualized, per the Activity Therapy Department.</p> <p>So that’s in totality how we need to ... um ... sort of, program that, plan that out, and when we present to you ... it will be ... ah ... something that we will let you know, so this is what we need to know for ... when we’re planning budgets.</p> <p>And then ... that’s the budget at the end ... in our annual report comes in critical [inaudible] ... “Here’s what we did in terms of activity.” And, you know, we might not do ... and through the stories I’ve been giving ... um ... you know, certain things do have ... provide for the residents, perhaps in the new environment. And then through the expenditures ChiaYu [Ma] is really great at monitoring ... um ... she and I meet, if not monthly, but when I sign a donation check, I sign [donation acknowledgement] letters out. We’re ... we’re in synch with</p>

⁵³ Hirose’s passage on pages 13 and 14, and the next few passages when Hirose spoke, show her public-speaking skills at their worst.

⁵⁴ Hirose never informed Commissioner Illig during the December 3 LHH-JCC meeting that at some point in the Fall of 2010, LHH Resident Council members reportedly asked that a patient representative be reinstated to the Gift Fund Management Committee, but were told they would have to wait until after the move into LHH’s new facilities in December 2010. There was absolutely no reason to have delayed re-appointing a patient representative to the Gift Fund Management Committee, and indeed, a patient should have been involved in helping LHH craft a revised policy and procedure governing use of the patient’s own gift fund account.

⁵⁵ Hirose also never informed Commissioner Illig during the December 3 LHH-JCC meeting that patients have also asked for quarterly reports of Gift Fund activity, but have also, by report, been rebuffed. In a subsequent meeting of the LHH-JCC on January 25, 2011, Hirose again failed to mention to Commissioner Illig that patients had also requested receiving quarterly Gift Fund reports.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	every check that we get. And I ... turn back around, in my office. At our levels, we're in synch corresponding acknowledgement letter.
Illig	Great!
Hirose	So ... um ... all of this has been put in place early this year in keeping with the policy ... that procedure that we revised, and ... I do apologize ... ah ... It was something that ... um ... was missing from the last ... um ... revision of the policy. We'll know [inaudible]. At a future JCC meeting, we'll be coming with a revised policy [inaudible] recommendations ... um ... as part of this discussion. [Inaudible.]
Illig	It's just clear that things ... management doesn't change the [hospital's] policy. Management can propose changes. The Commission approves changes to policies. And then ... one final thing. I don't know how you feel, but I feel it is important that we get quarterly reports to this Committee on this gift fund, once we set that up. And ... and I just want the record to reflect one thing that I put in the minutes of the last meeting [of this JCC subcommittee]. I requested a copy of this ... the draft [audit] report [prepared by the City Services Auditor]. We did not receive a draft report. I understand their reasons why not [why they were not able to provide a draft report to us]. I wanted to see it before the Department got a chance to respond to it. But I understand [now] that that was not the way to do things. So that's fine. Because this [report] is totally clean, above board. We got it when the public got it.
Sass	If I could finish making a couple of comments here? The ... um ... I think that clearly, at this Committee, quarterly detailed expenditure reports is probably minimum [inaudible]. But we do have a public meeting once a year, where we bring the gift reports to the [full] Health Commission.

End of Side "A" of the Audiotape, and Start of Side "B"

Speaker	Comment
	[Inaudible.]
Sass	... Truly, I think a [gift fund] budget, quarterly [gift fund] reports [to the Health Commission], together with a policy of Health Commission review [of gift fund expenditures] of how we manage the gift fund, are all critical. The needs of the gift fund in 2010 might be different from what they were in [unintelligible: 1994 ?]. And I think the elements in terms of committees ... I'm not sure [inaudible] ... [that this Joint Conference Committee or the Health Commission needs to be involved] day-to-day in every single disbursement [from the gift fund] ... [inaudible].
Melara	Well ... that's part of what the policy changes ... of the guidelines we need [to revise] ...
Sass	[Inaudible] ... difficult. There needs to be practical ... kind of an administrative ... kind of efficiencies here ... [inaudible].
Melara	I think we're getting into too many questions ... "what if" ... "what if" ... in this discussion. And I think what we need to learn from this process is that there were certain problems, and we need to address those problems. We need to come out with a set of guidelines that address the problems , and to ensure that this doesn't happen again. I agree with Commissioner Illig that once a quarter ... should be part of our process, and it should be included in the guidelines we develop. So that there's no question in our agenda's ... in our quarterly agenda, there should be a [unintelligible] of items that would address that issue. I also think that I would feel much better that I <i>didn't</i> see [the draft audit] report before [it was released], actually, even though I would have ... like you ... [wanted to see the report

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<p>beforehand]. The reality is that it [not seeing the audit before it was released] gives us at least the transparency ... that, you know, none of us are going to be covering for anyone⁵⁶. That, you know, whatever was right or wrong [with management of the gift fund], or, you know ... whatever mistakes were made ... that's fine. But I don't want in any way for us to hide anything ... or look like we're hiding anything from anyone in the public, primarily.</p> <p>In the sense of enough [of this playing out in] the media, and we need to move on from this point. I look forward to looking at some recommended guidelines that we can approve at the next meeting [of the LHH-JCC].</p> <p>I now would like to ask [members of] the public to speak and then hopefully we can close this item today.</p> <p>Uh ... [first speaker], Dr. Rivero.</p>
<p>Maria Rivero, MD, former doctor at LHH</p>	<p>Thank you, Commissioners.</p> <p>The LHH website displays a letter from Mivic Hirose, Gregg Sass, and Dr. Mitchell Katz that proclaims much of the sentiments that Mr. Sass addressed here [today], saying the:</p> <p style="padding-left: 40px;">“Gift Fund Audit Exonerates Laguna Honda”</p> <p>And that the audit:</p> <p style="padding-left: 40px;">“...definitively ends any question about whether the money donated for patient benefits were used strictly for patient benefits.”</p> <p>Contrast this with the Audit Findings. I quote from the audit:</p> <p style="padding-left: 40px;">“Due to insufficient monitoring and oversight of the Laguna Honda Hospital Gift Fund ... Laguna Honda incorrectly recorded into the Gift Fund's staff development accounts \$151,739 of donations, operating income, and interest not explicitly intended for staff.”</p> <p>And ...</p> <p style="padding-left: 40px;">“Laguna Honda did not maintain documentation supporting the intended beneficiary of Gift Fund donations it designated as staff-related.”</p> <p>So, in other words, 80% of the money in the staff accounts was patient money. So it doesn't matter where the money from the staff accounts went. We actually have documentation of at least one expenditure from the patient account that went to staff. But 80% of the money in the staff accounts belonged to the patients, according to the Audit Team. And then, they said:</p> <p style="padding-left: 40px;">“Laguna Honda did not provide supporting documentation for 35 percent of expenditure transactions.”</p> <p>Misleading statements such as those made on the Laguna Honda website⁵⁷ create mistrust amongst the public and the regulatory agencies, such as the DOJ [U.S. Department of Justice], and State Licensing [and Certification].</p> <p>Denying Gift Fund mismanagement raises questions about what else is being misrepresented.</p>

⁵⁶ Some observers can't shake the impression that the November 22 Audit Report, and subsequent public meetings regarding LHH's patient gift fund, feel like someone is **still covering for** others.

⁵⁷ The LHH web site carries on its home page, as of January 15, 2011, a link to a press release claiming that LHH has been purportedly “exonerated” by the CSA Audit Report. If LHH had been fully “exonerated,” it would **not** have been ordered to restore at least \$350,000 in improper diversion of patient funds.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<p>And as [LHH’s] Governing Body, this reflects negatively on you.</p> <p>The fact that Laguna Honda could not provide documents for 35% of the transactions that the Audit Team requested should lead to a forensic audit to find out where that paperwork is, and what it shows. Thank you.</p>
Melara	Thank you very much. Dr. Kerr?
<p>Derek Kerr, MD former doctor at LHH</p>	<p>Yes. I take exception to Mr. Sass’ and Ms. Hirose’s statements about no shortage, no depletion [of the patient gift fund]. The reason we raised Hell about this, is because we were told in writing ... memo’s from Administration ... that the gift fund was getting depleted, and that the bus trips had to be cut.</p> <p>We complained to the State. State investigators came and confirmed that patient restaurant bus trips were cut by 65%. Patient services were cut, because — we were told — that the gift fund was going bankrupt. Now, the audit has shown that 80 cents out of every dollar in the staff accounts were misappropriated. If you spend misappropriated money, that is called “mispending.” It is not called “exoneration.”</p> <p>The Controller also gave directions to ensure “sustainability” of the Gift Fund. [The Controller’s Audit ordered restitution of some \$350,000 and sustaining the Patient Gift Fund for the benefit of LHH residents.] But “sustainability” requires fundraising and outreach to donors.</p> <p>But Laguna Honda blocked employee donations to the Patient Gift Fund in this year’s Combined Charities Campaign. The public appeal for Gift Fund donations was taken off of Laguna Honda’s web-site three months ago — and is still missing⁵⁸. Laguna Honda’s opening Gala Celebration did not raise any money for the Patient Gift Fund. Neither did Supervisor Elsbernd’s “Crab-Fests,” though they were promoted as Laguna Honda fund-raisers.</p> <p>Please consider three suggestions for “sustainability.” Number one: Allow [LHH] employees to donate to the Gift Fund through the Combined Charities Campaign. Two, allow the public to view the Gift Fund donor web site. And, three, allow the Patient Gift Fund to benefit from Laguna Honda fund-raisers.</p> <p>Thank you.</p>
Melara	Thank you. Patrick Monette-Shaw?
Patrick Monette-Shaw	<p>Good afternoon, Commissioners. I find Ms. Lediju’s [Director of Audits] statement that the records are being maintained better now for the past several years, offensive.</p> <p>Since Ms. [Tess] Navarro [LHH’s chief financial officer who transferred to MUNI around the time the gift fund audit concluded] was a 0941 manager [while at LHH] and is now a 0943 manager [now at MUNI] potentially making up to \$189,000, surely she should have had better charge of records keeping.</p> <p>As for Mr. Sass’ remark about [quoting from] page 19 [of the audit report], I draw your attention to page 22 of the audit [report], in which it says that the Audit Team was not able to determine the cause of discrepancies, nor in many cases, whether the sub-accounts were incorrect [incorrectly used]. I think the Audit Team meant to write [it was unable to determine] “whether the [sub-]accounts were correct” [correctly charged].</p> <p>The sad fact is that all 2,000 of the [expense] transactions should have been looked at</p>

⁵⁸ This web page has now been missing for five months, since approximately September 6, 2010. Health Commission President Jim Illig needs to get that gift fund donation page restored to LHH’s web site, immediately. As of February 8, 2011, the web page remains missing in action.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
	<p>[audited], instead of only the 212 [transactions that were examined]. You need to review the other 1,798 [transactions], because I received from the Controller's Office yesterday a list indicating that the HLADMI account ... sub-account code paid ... shelled out \$50 employee-of-the-month awards. Bea Gunn got one [\$50 award]. Lolita Caceres got one. Bronwyn Gundogdu got one. Linda Acosta got one. Angela Platzer got one. Jacky Spencer-Davies got one.</p> <p>And sadly, they used \$192 [from the HLADMI sub-account] to frame a going away plaque for Mr. Funk. When the [LHH's] Rehab Services Department wanted to honor Mr. Funk for his many years of good service, we passed the hat [raising money from staff]. It didn't come out of the patient gift fund.⁵⁹</p> <p>Since this Commission [JCC sub-Committee] only meets quarterly, you need to expedite review of the [gift fund] policy ... and you need to get that gift fund [web site] page back up on the Internet, immediately.</p>
Melara	Thank you. Mr. Wooding?
George Wooding, President, West of Twin Peaks Central Council	<p>Hi. My name is George Wooding. I'm president of the West of Twin Peaks Central Council. We have 18 homeowner's associations surrounding Laguna Honda [Hospital]. I wanted to just state that Laguna Honda has a tremendous disconnect with the community.</p> <p>And many people now are talking much more about the gift fund than the new hospital, and what the residents can do [in the new facility]. Laguna Honda does absolutely nothing to reach out to the community that we can tell. We can't even get a return e-mail from Laguna Honda. So, first off, the gift fund management [committee] also included neighbors, and these neighbors were also taken off [of the oversight committee]. There used to be people from the community that were also part of the oversight, and I would recommend that you consider that again.</p> <p>I would also recommend some kind of community outreach, because right now ... I think, personally, Laguna Honda is a wonderful organization, but their reputation is terrible. Some of the things on TV were ... they turned Laguna Honda into a laughingstock. And I think you have a terrible problem with how you fit into the community now. And you have no outreach at all with the community. No one talks to the community. No one responds to the community.</p> <p>As you can hear, the people who talk with the community are doctors telling us certain things. We hear all kinds of things. We don't hear from Gregg Sass. We don't hear from Mivic. We don't hear from Marc Slavin. We don't hear from Larry Funk. We don't hear from James Illig [president of the Health Commission].</p> <p>We invite you to our meetings [but] you don't come. So ... it is incumbent on Laguna Honda to do something to be part of our community. We want to accept you in our community, but you don't act like you're part of our community. And I heard Mivic say a long time ago that she did not want to be defined by her detractors. And I think that's exactly what's happened.</p> <p>Thank you.</p>
Melara	Thank you very much. Is there anything else on this item ...?
Norm Burns, former LHH Activity Therapist	I'm to speak ...
Melara	I have a ...

⁵⁹ Another \$163 was spent on a going-away plaque for Serge Teplitsky, RN, LHH's former director of its Quality Management department. In total, LHH spent \$3,342 on various employee-of-the-month awards and going-away plaques using patient gift funds out of the so-called "staff development" sub-accounts, which the City now claims was OK; these staff rewards appear to have been paid for out of the illegally-created staff development sub-accounts that were ordered to reconstitute funds to patient sub-accounts.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
Burns	You should have something from me.
Melara	I have something from you on the naming of this [community meeting room] ...
Burns	Yeah. But I also want to make a comment on the gift fund.
Melara	Well, I don't have a [speaker] card from you on that item.
Monette-Shaw	Oh, please! I mean, really!
Melara	Mr. Monette-Shaw! If you don't behave, I'm going to ask you to leave the room. I'm asking him ...
Monette-Shaw	OK. Ok.
Melara	Uh. Uh ...
Burns	Well, then I will ...
Melara	Go ahead [Mr. Burns] and make your comment.
Monette-Shaw	Here's a blank one [speaker card] for Mr. Burns.
Melara	Go ahead and make your comment, sir.
Burns	OK. Well ... you know, if you do the crime, you should do the time . And if I went to the Bank of America and I took ... misappropriated ... \$100,000, I would do the time, as well as any one of you here. Perhaps some of you would be able to get out. But I don't think it's fair. Now the other thing is ... My name is Norman Burns. I used to work here [at Laguna Honda Hospital. So I saw, firsthand, how the patients had to do without bus trips, because there "wasn't any money," [for off-site patient outings]. Or ... we were investigated by the [U.S.] Justice Department or the ... we got deficiencies from the State so much. And ... uh ... this didn't really happen so bad until Mr. Kanaley came on [as LHH's new Executive Administrator in 2004]. And when he came on board, the Justice Department got us. We got deficiencies [from the State]. We got re- ... The community was questioning whether or not we should have dangerous people [admitted as patients] with our mix of [elderly] patients. So ... what I'm saying here is I object to this very room to be named after Mr. Kanaley
Melara	I'm sorry. I'm sorry. I'm getting confused then. Are you speaking on the naming ... ?
Burns	I'm on the naming. I got off on that ...
Melara	OK. But ... because we're still on the item related to the gift fund.
Burns	Yeah. Well, no. No.
Melara	Well, that's why You said you wanted to make a comment about this issue, and I gave time. I gave you the time. Let's move on. I can ... the next item is coming up. We need to deal with the item on the table right now.
Burns	OK.
Melara	Thank you. All right. Are there any ... Is there any other ...
Illig	Excuse me. I'd like to make one other comment. I think we all agree that this was looked at very carefully. The City Services Auditor came in, took a look at this [the gift fund]. Whether mistakes ⁶⁰ were made ... they've been corrected ⁶¹ . I think it is incumbent on you Dr. Kerr; you Dr. Rivero ; Mr. Wooding; everyone else; Patrick Monette-Shaw; to help up with that process of re-connecting with the community ...
Wooding	We'd like to see you do something.
Illig	I would be glad to help.
Wooding	I don't see it.

⁶⁰ Illig appears to blow off the patient gift fund scandal as mere "mistakes," when it is clear to most observers there was a concerted **pattern of misappropriation** of restricted-use patient gift funds that were **not** mere accounting errors.

⁶¹ Illig appears to be hasty. Until members of the public see the revised policy and procedures for LHH's patient gift fund, the community will have no way of knowing whether the patient gift fund mistakes have **actually** been corrected, and the Audit Report itself provides little assurance that all of the misappropriation of patient funds has actually been corrected with **full** restitution.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
Illig	This is about ... this community of patients and residents. We want to ensure that donations continue to come in to support these patients and residents. And, you know, as I said at the last [LHH-JCC] meeting, I think it was a good thing that you did ... brought this forward ... and pointed this out ⁶² . Now let's move forward, together. And even though you don't work here anymore ...
Kerr	Ahh ... now <i>that's</i> the problem ...
Illig	... you care very deeply about the patients and the staff who work here. So do we. And so does everybody around this table. And I think now, we can move forward and try to do this a little differently, and try to raise the profile of Laguna Honda ...
Kerr	Sure. Absolutely.
Illig	... <u>so we can get some donations</u> ⁶³ .
Melara	Um ... yeah. I'd like to thank all of you for the time you've taken on this item. Thanks for looking into what's going on and to ensure that we rectify this issue. I want to thank you profusely ... I mean the Controller's Office, for all of their work. And, I am looking forward to a set of guidelines that we can institute in relationship to this particular matter, but also for us to learn beyond this particular matter about other things that we might want to change, modify, improve on. And so ... um ... I ... you know ... Obviously, I felt that I was being looked upon. You know ... That <u>my reputation was on the line</u> ⁶⁴ , because people have asked me about it [the gift fund]. You know ... The media situation was not a very nice one on my side, because I happen to be related to folks in the media ... And so I do know how this impacted this agency and I want to make sure that it doesn't happen again. So I thank you all for being a part of making ... helping use move forward. And ... um. I certainly still want to come to the meetings, I want to be invited ...
Wooding	I invite Mr. Illig, and then if he doesn't choose to invite ... that's ... I can't invite ... you know ...
Melara	... Because I'm a part of this community, as well ...
Burns	I know I've already spoken, but I want to say one thing. One thing I want to say is why didn't we have public input, or the Commission's input, on the naming [rights] of this room, and the [inaudible] ... ?
Melara	Hold on a second. We haven't gotten to [the] Public Comment [agenda item] yet. And you will have your opportunity then and I'll give you two minutes on that, but I want to close this item first. So thank you so much. And <u>I don't think we need [to make this] an action item</u> ... to take action on this, and so I ...

⁶² Although not transcribed here, Commissioner Illig apparently pointedly thanked the whistleblowers during the LHH-JCC's meeting on **September 28** for having brought the gift fund abuses forward.

⁶³ Clearly, Illig appears to be very worried about the probable drop off in donations to LHH's patient gift fund that has occurred as a result of the scandal involving patient gift fund abuses. If Illig truly wanted to increase donations to the patient gift fund, he would 1) Order a patient representative be re-appointed to the Patient Gift Fund Management Committee **immediately**, and, 2) Insist that LHH restore its patient gift fund web page to its Internet web site immediately, since that page advising donors how they can make contributions has been missing since approximately September 6, 2010. In order to implement the Audit Team's recommendation to ensure "sustainability" of the gift fund, Illig needs to get the Health Commission to quickly reinstate greater oversight of LHH's gift fund, and its policy and procedures, and restore the missing web site page. Illig needs to carefully study Figure 9 on page 29 of this Transcript.

⁶⁴ Melara is absolutely correct: **Her reputation will continue to be on the line** until she explains why it has taken so long to revise LHH's gift fund policies and procedures to restore the charity-donating public's faith in LHH.

Verbatim Transcript of Agenda Item #4: Laguna Honda Hospital Gift Fund Report

Speaker	Comment
Lediju	I would just like to say to both of you [Commissioners Melara and Illig], regarding your comment about seeing the draft report [prior to its release]. I apologize for misspeaking. Being very new, if you will, to the [City Services Auditor] organization as a whole, and trying to keep balance and independence, I misspoke on that day. But it truly is very important, our independence. And how you fit on the board with your organization. What it does to public perception [of independence] ... [inaudible] ... Please accept my apologies.
Melara	That was explained to us and I am ... I actually appreciate that, because no one is ever going to say that we were talking to you while you were doing your [audit] investigation. And I wanted that separation from the beginning. Thank you very much. OK. Why don't we take the item ...
Illig	I recommend approval [to accept the Controller's Audit Report].
Melara.	OK. I can't second [the motion]. Do you want to second it?
Multiple voices	[Inaudible.]
Melara	All those in favor?
Illig	Aye.
Melara	[Laughter] OK. We move on [to the next agenda item].

###

END OF TAPE

Written Public Testimony
Submitted for Inclusion in LHH-JCC's December 3, 2010 Meeting Minutes

Written Testimony From Maria Rivero, MD

The LHH website displays a letter from Mivic Hirose CEO, and Mitchell Katz, M.D. which proclaims:

“Gift Fund Audit Exonerates Laguna Honda”

“...definitively ends any question about whether the money donated for patient benefits were used strictly for patient benefits.”

Contrast with Audit Findings:

“Due to insufficient monitoring and oversight of the Laguna Honda Hospital Gift Fund ... Laguna Honda incorrectly recorded into the Gift Fund’s staff development accounts \$151,739 of donations, operating income, and interest not explicitly intended for staff.”

“Laguna Honda did not always maintain documentation supporting the intended beneficiary of Gift Fund donations it designated as staff-related.”

“Laguna Honda did not provide supporting documentation for 35 percent... of expenditure transactions.”

Misleading statements on the LHH website create mistrust amongst the public, DOJ, and State Licensing.

Denying Gift Fund mismanagement raises questions about what else is being misrepresented.

As the Governing Body, this reflects negatively on you.

Written Testimony From Derek Kerr, MD

The Controller’s Audit ordered restitution of some \$350,000, and sustaining the Patient Gift Fund for the benefit of LHH residents. This requires fund-raising and donor outreach. This year, LHH staff were not allowed to donate to the Gift Fund through the Combined Charities Campaign. The appeal for public Gift Fund donations was removed from LHH’s web-site 3 months ago — and is still missing. LHH’s Opening Gala Celebration did not raise any money for the Patient Gift Fund. Neither did Supervisor Elsbernd’s “Crab-Fests” though promoted as LHH fund-raisers. Please allow LHH staff to donate, allow the public to view the Gift Fund donor web-page, and include the Patient Gift Fund in fund-raisers for Laguna Honda.

Written Testimony From Sherrie Matza

To: Health Commissioners/Joint Conference Committee

Re: “Gift Fund Update” – December 3, 2010 Meeting

Had it not been for the perseverance and devotion of Drs. Maria Rivero and Derek Kerr, the pillaging of the Patient Gift Fund would still be undiscovered. A whopping \$350,000 needs to be restored to the Patient Gift Fund. Please publicly acknowledge these heroes and ask why Mitch Katz still refuses to admit that funds intended for patients were inappropriately allocated to staff accounts.

Through the pressure brought by Drs. Kerr and Rivero, an audit was finally done, even though the report fails to include the need to restore \$176,481 taken from the Patient Gift Fund to “clear a cash deficit” in the hospital’s operational budget (a violation of the City’s Administrative Code section 10:100-201).

Please carefully audit the restitution of funds to the Gift Fund to ensure that every last dime is accounted for, and make sure that policies and procedures are in place so this never happens again.

Written Testimony From Patrick Monette-Shaw

The City Controller provided a records response December 2 indicating staff education sub-accounts [created by diverting patient gift fund donations] funded 56 employee-of-the-month \$50 awards, totaling \$3,342. The Controller's new data was created November 19, apparently after presenting LHH a draft audit report on November 3, and after the audit exit conference November 9. Among the employee awards: \$163 spent on a plaque for Serge Teplitsky and \$192 on a plaque for Larry Funk. This \$3,342 should be restituted to the gift fund for patient benefit. This demonstrates all 2,000 expense transactions must be re-audited, since 1,798 transactions weren't even reviewed. Page 22 of the audit report noted the Audit Team couldn't determine which transactions were incorrectly spent; clearly, the \$50 employee awards were among incorrect spending. Without a full forensic audit of all 2,000 transactions, the Health Commission appears to approve of continued hiding of information from the public.

Figure 1: Slide #4: City Services Auditor Presentation to Laguna Honda Hospital-Joint Conference Committee, December 3, 2010



Gift Fund Balances

- The Laguna Honda Gift Fund is fully funded by Contributions from donors and the interest earned on investments held.
 - As of June 30, 2010, investments held were valued at \$835,307.

The following exhibit details the audited Gift Fund activity during the period under audit:

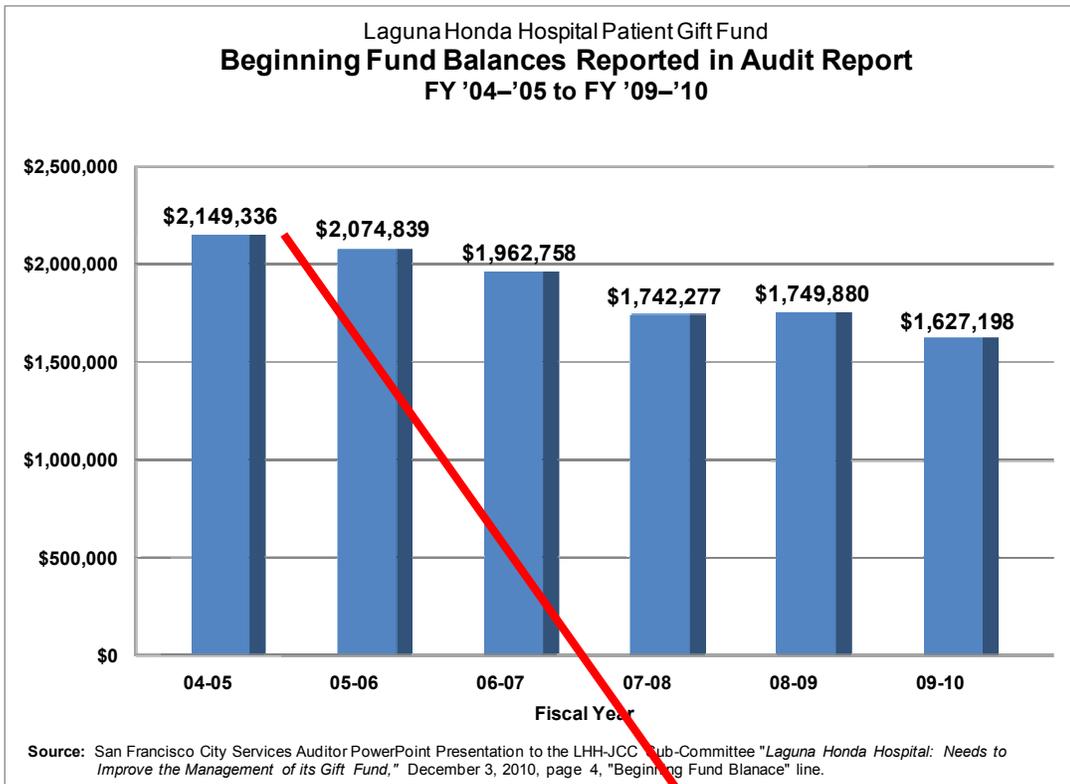
Fiscal Year	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Beginning Fund Balance	2,149,336	2,074,839	1,962,758	1,742,277	1,749,880	1,627,198
Donations	128,423	86,675	189,207	138,846	65,282	90,336
Income and adjustments	19,939	73,598	46,857	164,451	146,113	206,937
Disbursements	(222,859)	(272,354)	(456,545)	(295,694)	(334,077)	(207,533)
Ending Fund Balance	2,074,839	1,962,758	1,742,277	1,749,880	1,627,198	1,716,938

4

Comments:

- Slide #4 of Lediju’s December 3 PowerPoint presentation is the same tabular data presented in “Exhibit 1” on Page 10 of the November 22, Audit Report (titled “*Department of Public Health: Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund*”). The Audit Report Contained just two tabular exhibits, and offered no — zero — graphs or graphic illustrations to convey the significance of the data. For that matter, the November 22 Audit Report used just eight occurrences of the word “percent,” and they all referred to the percentage of transactions for which adequate supporting documentation could not be found. Nowhere in the 39-page Audit Report is the word “percent” used to describe any of the data presented in Exhibit 1 (a.k.a., Slide #4); as well, the abbreviation “%” is used only twice in the 39-page Audit Report, but not for data in Exhibit 1.

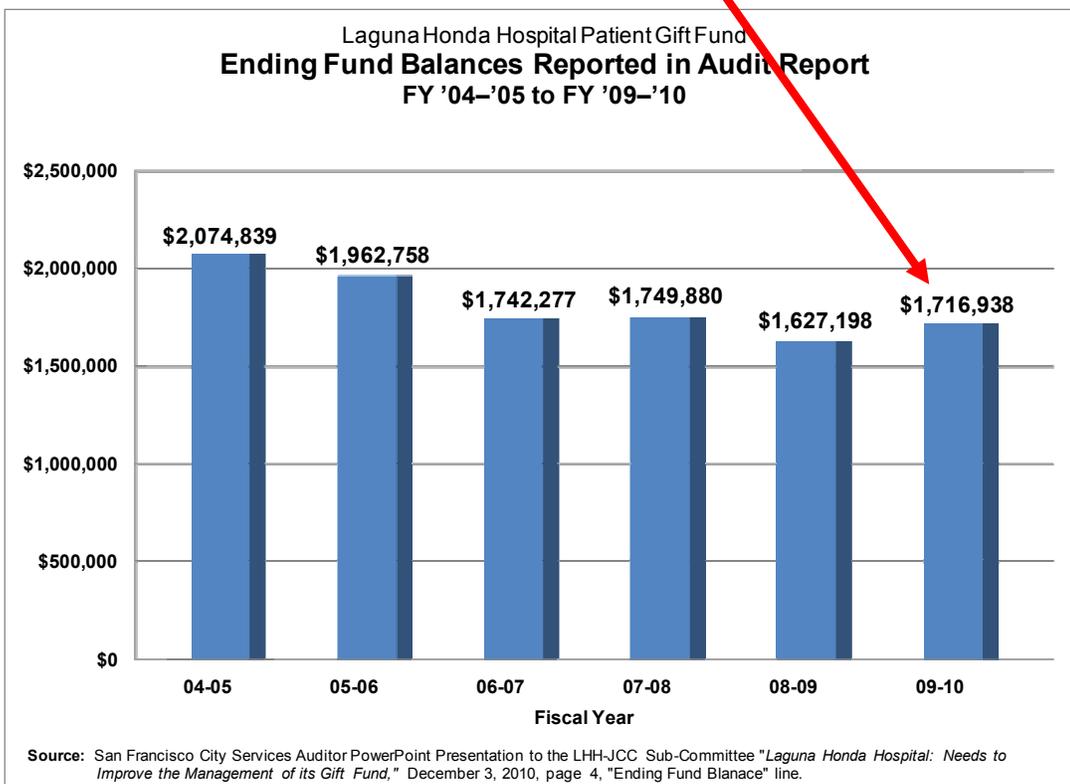
Figure 2: Analysis of Gift Fund Balances: Beginning Fund Balance



Comments:

- On Page 3 of this Transcript, Ms. Lediju stated that the gift fund "had decreased from \$2.15 million to \$1.72 million."
- Lediju was referring to the difference between the fund's FY '04-'05 Beginning Balance and its FY '09-'10 Ending Balance.
- The \$432,398 difference between the two amounts reflect a 20.1 percent change decline in the gift fund's balance over the six-year period.
- Although Lediju said the "fund appears to be in good condition," she didn't comment on the significance of the 20.1% decline.

Figure 3: Analysis of Gift Fund Balances: Ending Fund Balance



Comments:

- Lediju also didn't comment on why the Ending Balance reportedly increased by \$89,740 between FY '08-'09 and FY '09-'10.
- Lediju did not comment on why the ending balance for FY '09-'10 has been adjusted multiple times since June 2010:
 - As of June 28, 2010, the City Controller's Office reported the '09-'10 ending balance was \$795,126.
 - On September 28, LHH's former Chief Financial Officer, Tess Navarro, reported the '09-'10 ending balance was \$1.59 million.
 - On November 22, Lediju reported the ending balance at \$1.72 million.
 - No explanation has been offered why the ending balance keeps changing, or why it's now \$1 million higher than reported in June.

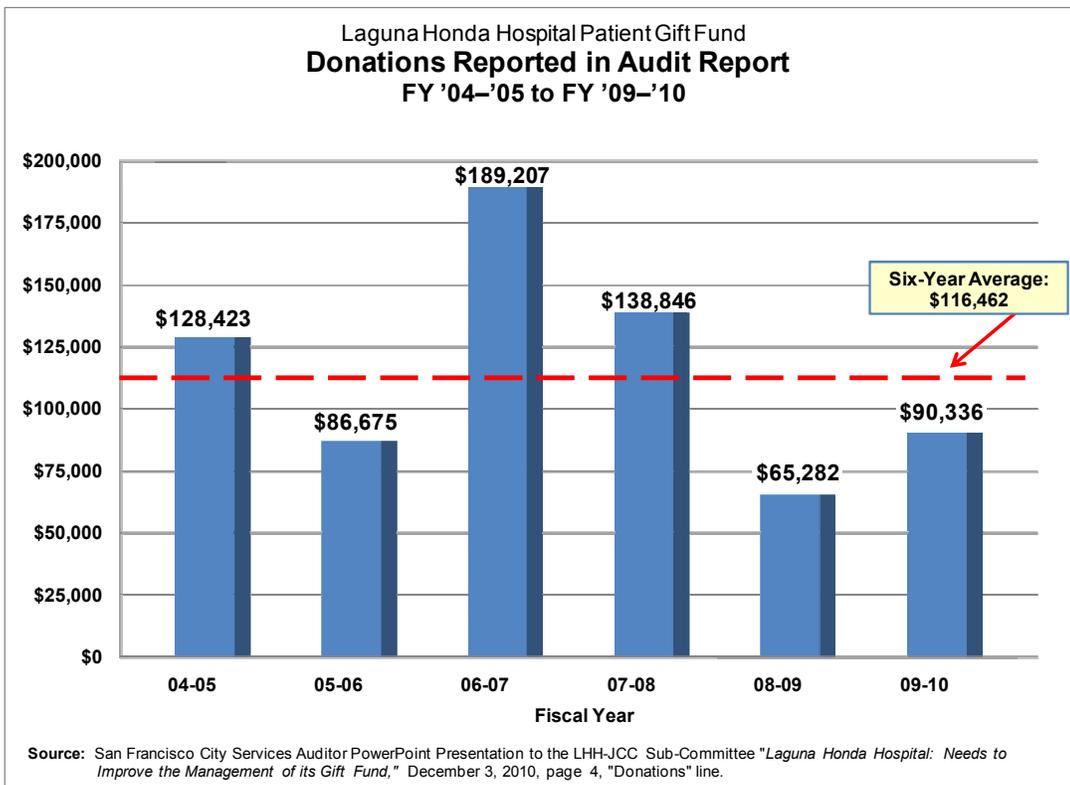
Table 1: Analysis of Gift Fund Balances: Another View of the Gift Fund Balances

Fiscal Year:	'04-'05	'05-'06	'06-'07	'07-'08	'08-'09	'09-'10	Six-Year Average
Beginning Balance	\$2,149,336	\$2,074,839	\$1,962,758	\$1,742,277	\$1,749,880	\$1,627,198	
Ending Balance	\$2,074,839	\$1,962,758	\$1,742,277	\$1,749,880	\$1,627,198	\$1,716,938	
	(\$74,497)	(\$112,081)	(\$220,481)	\$7,603	(\$122,682)	\$89,740	(\$72,066)

Comments:

- On Page 3 of this Transcript, Ms. Lediju stated the gift fund declined “approximately \$72,000 per year.”
- Lediju was referring to the average annual decline.
- She did not address why the gift fund’s ending balance in FY ’09–’10 **increased** by \$89,740, which was clearly not a \$72,000 average decline.

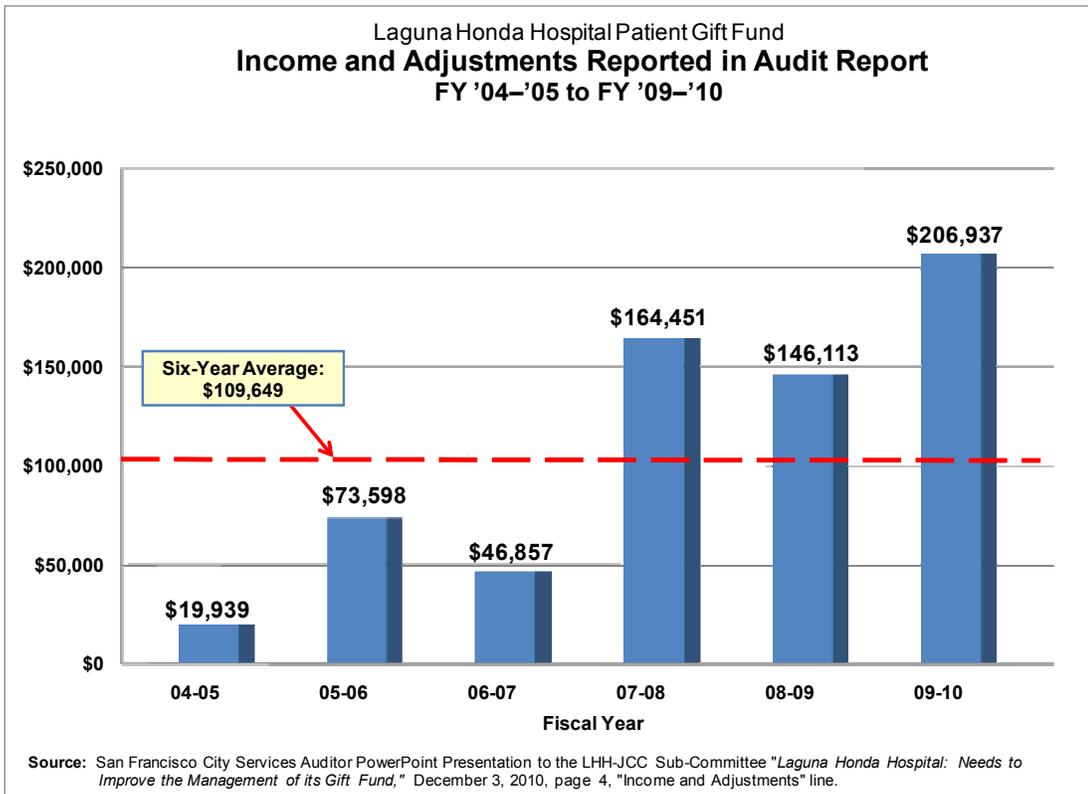
Figure 4: Analysis of Gift Fund Balances: Donations



Comments:

- On Page 4 of this Transcript, Ms. Lediju stated Donations “averaged \$115,000.”
- She did not comment on why donations in FY ’06–’07 had reached \$189,207.
- Lediju also didn’t comment on why between FY ’06–’07 and FY ’09–’10 Donations saw a **52.5 percent change decline**.

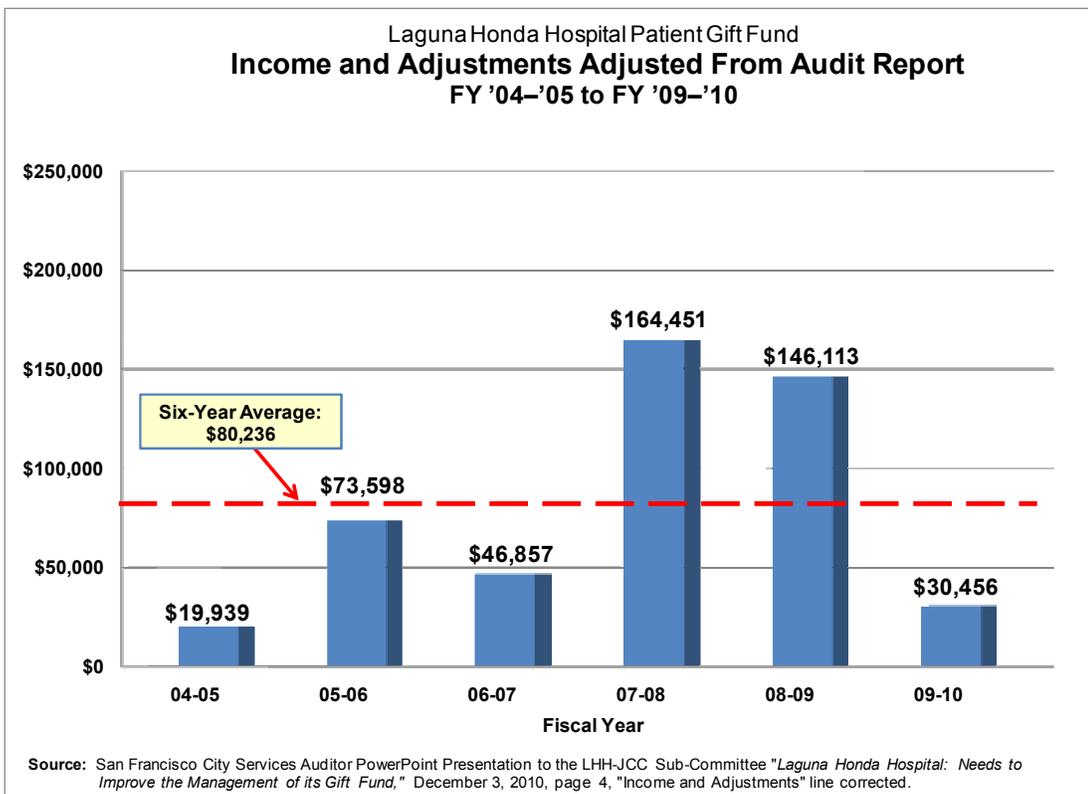
Figure 5: Analysis of Gift Fund Balances: Income and Adjustments Reported in Audit



Comments:

- "Income and Adjustments" were categorized by Lediju on Page 4 of this Transcript as being "comprised of dividends, interest, and 'annual accounting entries'," although she did not elaborate on the types of accounting entries.
- Only later on Page 5 of this Transcript, did Lediju acknowledge that the FY '09-'10 Income and Adjustments includes the restoration of the \$176,481 (in an "accounting entry") from the improper use of patient gift funds that were transferred to a capital account in FY '06-'07.

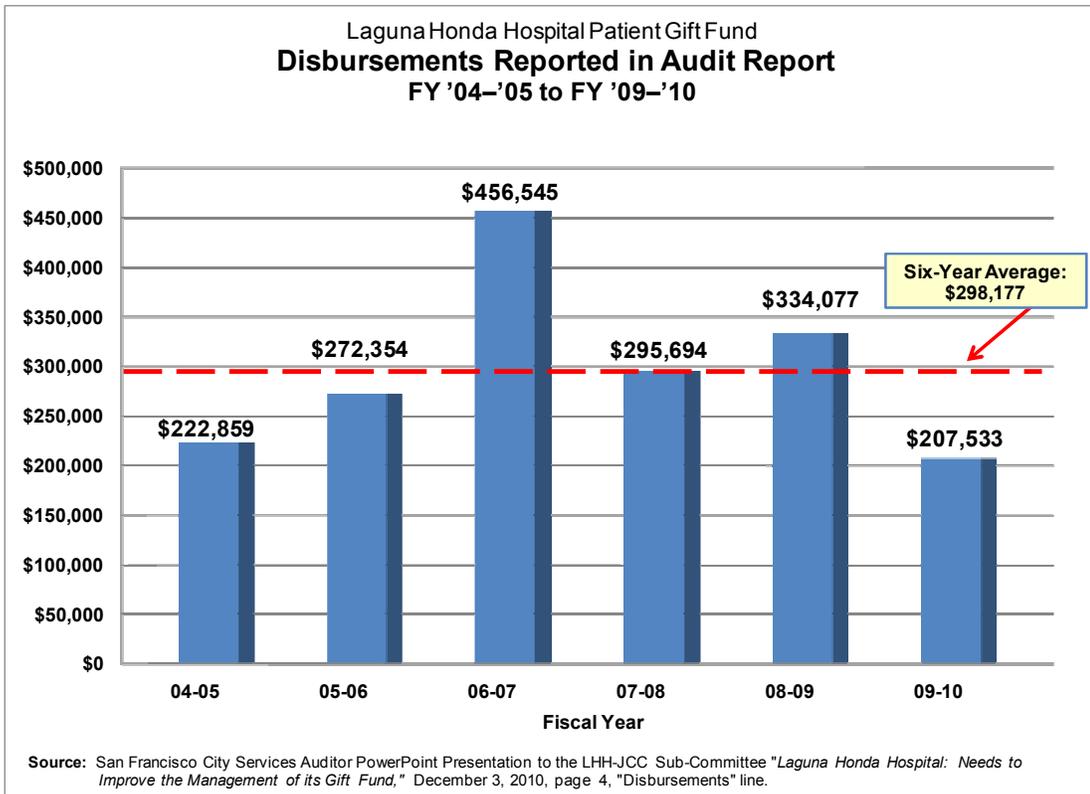
Figure 6: Analysis of Gift Fund Balances: Income and Adjustments Corrected



Comments:

- If you remove the \$176,481 restored as "Income and Adjustments" that had been improperly transferred to the capital account, a different picture emerges in the corrected illustration shown in Figure 6:
 - First, the annual average drops to just \$80,236, not \$110,000.
 - Second, the Income and Adjustments saw a **79.2 percent change decline** in the one-year period between FY '08-'09 and FY '09-'10.
- The **79.2% decline across this single year can only be viewed as very unusual activity** during the six-year period under audit.
- The \$176,481 returned to the patient sub-accounts would more than likely not have occurred if the gift fund whistleblower complaint had not been filed.

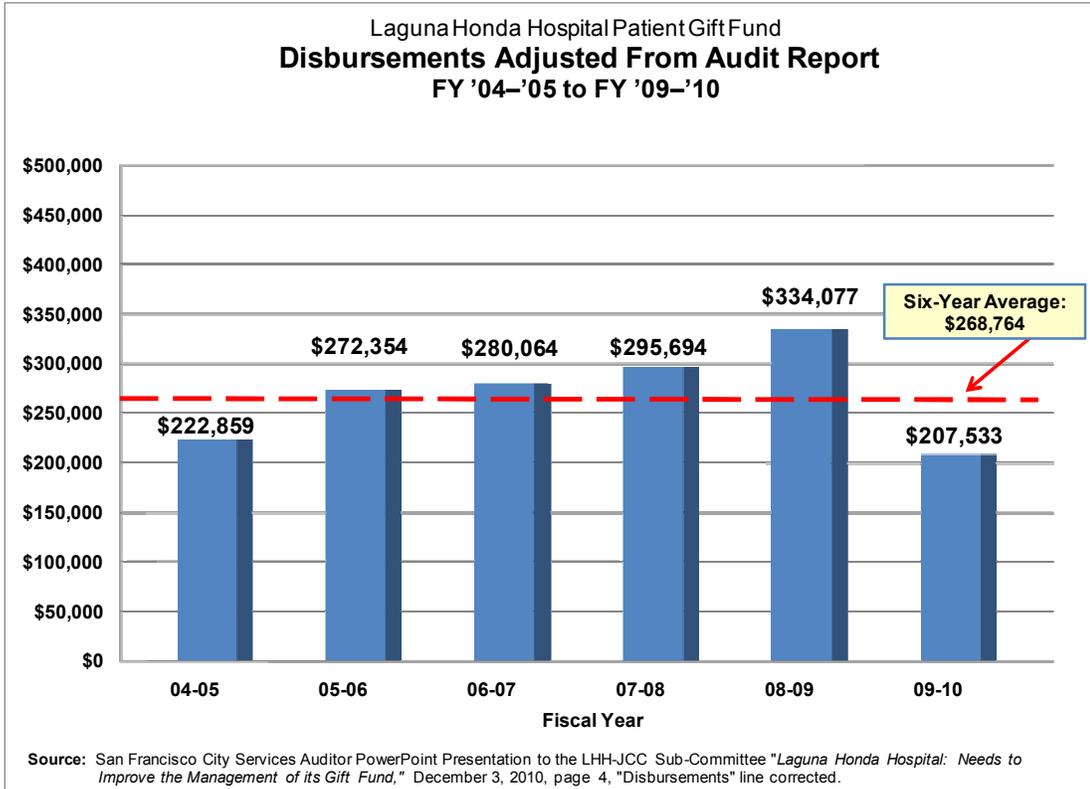
Figure 7: Analysis of Gift Fund Balances: Disbursements Reported in Audit



Comments:

- Lediju wrongly stated on Page 4 of this Transcript that Disbursements “increased annually during each fiscal year.” This is untrue:
 - In the one-year period between FY '08-'09 and FY '09-'10, **there was a 37.9 percent change decline in Disbursements** to \$207,533.
- Only later on Page 5 of this Transcript, did Lediju acknowledge that the FY '06-'07 Disbursements included the \$176,481 improper transfer of patient gift funds to a capital account. She tried to split hairs that the \$176,481 wasn't a “disbursement,” but just a “transfer” of funds.

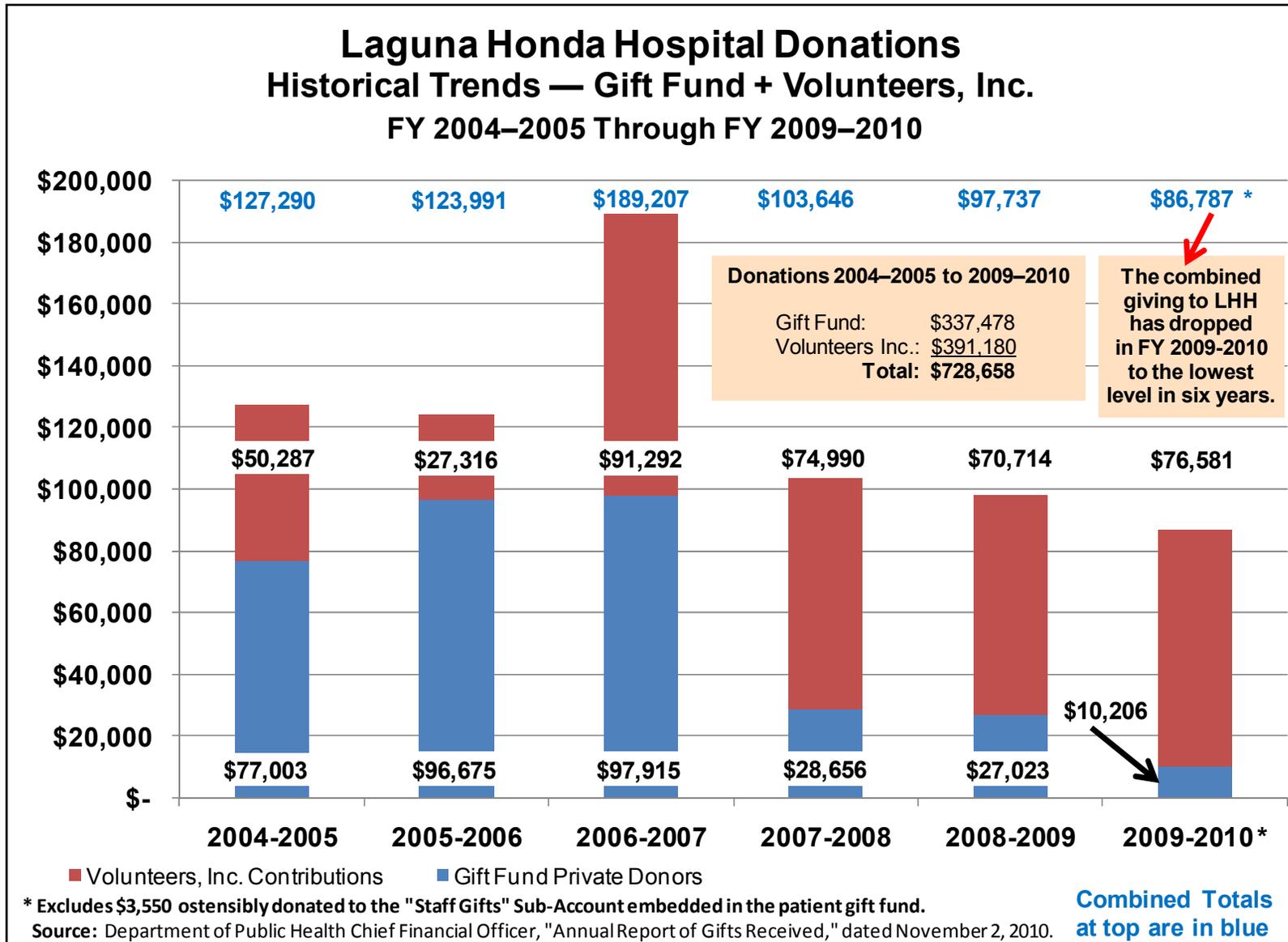
Figure 8: Analysis of Gift Fund Balances: Disbursements Corrected



Comments:

- If you remove the \$176,481 improperly transferred to the capital account in FY '06-'07, a different picture emerges in the corrected illustration shown in Figure 8:
 - First, the annual average Disbursement drops to just \$268,764, not \$298,177.
 - Second, between FY '06-'07 and FY '09-'10, there was still a **25.9 percent change decline**.
- The **37.9% decline between FY '08-'09 and FY '09-'10 can only be viewed as very “drastic” activity, not the “not drastic” activity** Lediju claims on Page 5.
- Page 22 of the November 22 Audit Report noted the Audit Team could not determine “in many cases” whether sub-account disbursements were correctly charged, calling into question all Disbursements.
 - Only 10% of approximately 2,000 disbursement transactions were audited.

Figure 9: LHH Gift Fund Donations per Department of Public Health Annual Reports



Comments:

- As of November 2, 2010, the Department of Public Health reported that donations to LHH's Gift Fund in FY '09-'10 totaled just \$86,787. But November 22, Ms. Lediju reported donations slightly higher for the same fiscal year, at \$90,336.
- This involves donations through June 30, 2010, just one month after news of the gift fund scandal first aired on KGO-TV, Channel 7.
- If Commissioner Illig was truly concerned about "getting some donations," why is it that as of February 13, 2011, the gift fund page still has not been reinstated to LHH's web site informing donors how and where they can contribute to benefit actual patients, since Louise Renne's Laguna Honda Foundation does not directly support patients or patient activities?
- Given the drop off to just \$10,206 in private donations in FY '09-'10, isn't it incumbent on Commissioner Illig to act rapidly, since as of release of this Transcript on February 13, 2011, we are already now eight months into the next fiscal year and there's not much time left for him to act to increase donations to LHH's gift fund by the end of June 2011?