

Red Flags Over Laguna Honda Hospital

by Patrick Monette-Shaw

After I reported last month that KGO-TV Channel 7 had inappropriately been airing a public service announcement that Laguna Honda Hospital's mishandling of patient gift funds had "went back to patients," implying restitution of misspent funds, I complained to Dan Ashley about it.

KGO appears to have curtailed, but not eliminated, the PSA from the airwaves, since no such remedy had occurred when the PSA first aired. At best (but doubtful), the practice of so brazenly raiding funds for patients may have stopped. But without full restitution of past abuses, little "went back to patients," as Ashley misreported.

When last month's issue went to press, I reported Deputy City Controller Monique Zmuda was scheduled to return to LHH to conduct a review of LHH's gift fund accounting practices. On August 25, Zmuda indicated her "audits group" would conduct a "review" of LHH's patient gift fund to determine whether LHH had administered the fund in accordance with the municipal code. She indicated re-allocation of \$100,000 in "interest earned" might be re-performed based on the "reasonableness" of the initial interest allocation to staff education accounts rather than to patients. She also indicated if there was a departure from the Administrative Code, her group would determine under what authority practices had been amended.

It is thought all City employees are bound to comply with San Francisco's Administrative Code, since none of them are thought to be above the law or hold authority to amend the Code, unilaterally.

After whistleblower doctors Derek Kerr and Maria Rivero — former LHH physicians who have been investigating disbursements from LHH's patient gift fund for now nearly a full year — raised new accounting red flags, few questions have been answered.

It appears from their research that there were few accounting controls in place and that the patient gift fund may have been used like a petty-cash drawer, since many of the checks and balances to prevent abuse of the funds had been eliminated.

San Francisco's Director of Public Health, Mitch Katz, MD, issued a press release on September 2, claiming DPH had requested the Controller's Office conduct a "detailed audit" of LHH's patient gift fund. Even before the audit was underway, he prematurely concluded that "there has not been a single instance in which funds designated for patients were used for any other purpose." Katz is wrong.

There appears to be multiple instances in which patient funds were used for other purposes.

The timeline of events starting on September 1 is remarkable, given the resulting spin control issued by the City.

On September 1, 2010, doctors Maria Rivero and Derek Kerr submitted a second report to the Health Commission, Civil Grand Jury, and the Whistleblower Program administered by the City Controller's Office, regarding potential cost-shifting of previously-borne hospital operating expenses onto LHH's patient gift fund, which may have further depleted the gift fund from providing supplementary amenities for patients.



Now that an audit of Laguna Honda Hospital's patient gift fund is underway, there are many red flags that the City Controller's Office must address to restore donor confidence and implement remedies to actual patients.

On September 1, they suggested \$745,000 may have went missing from LHH's patient gift fund between 2004 and 2005.

The next day, Dr. Katz issued a press release, claiming a minor error in deposits of funds intended for patients, "had no impact on expenditures for patients," and "in no way influenced the amount of money available for patient activities."

He's likely wrong, on both counts.

The following day, on September 3, the City Controller's Office released for the first time news that an "Investment Balance" sub-account may exist within the patient gift fund. It was news to everybody who has been following this scandal.

Could it be that the various detailed analyses by Drs. Kerr and Rivero gave the City no choice but to finally conduct a deeper audit?

Among other red flags Kerr and Rivero uncovered, they report depletion of major bequests and trusts left to the patient gift fund. In the six years between 2004 and 2010, almost \$2 million vanished from the bequests and trusts donated for LHH **patients** exclusively, depleting these sub-accounts. Some **\$1,581,882** was pulled out of the three big bequests (the Martin Heller, William Lenahan, and Marie Lewis bequests) in 2005 alone!

A second red flag the two doctors uncovered involves re-shuffling of gift fund sub-accounts in 2005. Within six months after John Kanaley became LHH's Executive Director in 2004, most gift fund "index" codes were changed. For example the "Miscellaneous" sub-account was switched from HLMGFT to HLMISC. The Martin Heller bequest was changed from HLMHEL to HLMBQ, etc. When asked why these changes were made, LHH's Chief Financial Officer, Tess Navarro, replied "I don't know."

Once the account codes changed, money appears to have been transferred from old to new accounts, and elsewhere. Following what money went where became difficult to track, and "restricted" patient bequests appear to have poured into new unrestricted accounts.

The re-shuffling of codes obscures transformation of a patient "trust fund" into a "slush-fund."

A third red flag involves the misallocation of interest earnings.

Navarro may still not know.

Interest and dividends generated from bequests to the patient gift fund should belong to LHH patients. But on February 18, 2010, **\$100,485** was taken from the gift fund interest account (Index Code: COUNGR) and deposited into four staff sub-accounts. This enormous allocation — which Zmuda indicated she would investigate — was based on existing balances in these staff accounts, most of which came from dubious deposits. The "interest earned" allocation to staff accounts appears to be a violation of the City Charter.

Zmuda's new audit must review the interest allocation formula, since if boosting the principal in a given gift fund sub-account is "spiked," the sub-account may then qualify for a disproportionate interest allocation. Clearly, the impermissible \$100,485 "interest earned" allocation to staff accounts last February should be restituted to patients.

A fourth accounting red flag involves a disbursement from the gift fund in fiscal year 2006-2007 of **\$176,481**, during a year in which total disbursements totaled a whopping **\$456,545**, 50 percent higher than the preceding year or the following years, and much higher than any other year. The \$176,481 expenditure came directly from the gift fund's interest account, but there's no explanation of what was purchased with the funds.

All along, official responses from LHH and the City Controller's Office to public records and information requests have been incomplete and confusing.

Katz's sudden new claim the patient gift fund balance has reached \$1.9 million through the present rests on the September 3 release of information that the gift fund had up to \$835,000 in an investment account not revealed during the past four months. Katz appears to be claiming that combining the "cash balance" with an "investment balance" solves the problem.

If there has been no adverse impact on patients as Katz claims, why were LHH staff told that the patient gift fund was bankrupt, and bus outings sharply curtailed, resulting in the State citation Laguna Honda Hospital received for cutting bus trip outings by 65 percent?

Lingering questions remain about how \$649,685 may have gone missing in the gift fund's "cash balance" between 2004 and 2010, and how the "total balance" may have decreased by \$585,688 across this time period.

It's unclear whether Zmuda's new investigation will distinguish between — let alone examine — "trust" from "slush."

Peg Stevenson, the City Services Auditor who works closely with Zmuda, has indicated some \$400,000 in "Proposition C" City Services Audit funds are designated for LHH. A small part of the \$400,000 could be used for an independent, CPA-directed audit of the LHH patient gift fund, to prevent Zmuda's potential conflict of interest from tainting the results of a full, impartial audit.

Zmuda admitted on August 25 that the gift fund's cash balance stood at only \$726,808.

Only an independent audit — conducted by an external agency — will keep Katz and the City honest about LHH's patient gift fund.

Without an independent audit, the accounting red flags will likely increase.

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