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Laguna Honda's Continuing Scandals **A Sordid Tale of Two Non-Profits**

by Patrick Monette-Shaw

The recent sordid history of two non-profits that purport to serve residents of Laguna Honda Hospital (LHH) appears to have resulted in the dissolution of one of the non-profits, declining contributions to the hospital from the other, and an eight-year low in public contributions to Laguna Honda Hospital's patient gift fund.

All of this may have been avoidable. But a confluence of factors appears to have contributed to unintended consequences for all three programs. Former City Attorney's Louise Renne's unfortunate statements in June 2004 may have set the stage for their downward trajectory. Given nearly a decade of sordid events affecting the hospital, the resulting outcomes aren't too surprising.

Renne — who claims she was responsible for San Francisco's ground-breaking lawsuit against tobacco companies that provided about one quarter of the hospital's rebuild initial budget, when it was actually former Supervisor Angela Alioto who accomplished that feat — failed to raise a single dime towards new furnishings for the rebuilt hospital, but Renne was awarded an engraved plaque in Laguna Honda's new facilities, anyway.

Renne appears to be finally throwing in the towel and is reportedly dissolving her Laguna Honda Foundation, following an apparent investigation by the Registry of Charitable Trusts, a division of California's Attorney General (A.G.).

R.I.P. Laguna Honda Foundation

In response to a fairly innocuous "show us the money" request placed on January 13 by this *Observer* columnist for audited financial statements of Ms. Renne's Foundation, Melanie Beene, CEO and President of Community Initiatives — the "fiscal sponsor" handling the books of Renne's non-profit Foundation — responded unexpectedly on January 14, sharing news that Renne's Foundation is no longer a sponsored project of Community Initiatives.

This loss may mean Renne can no longer shield her Foundation's revenues and expenses by aggregating them under lump-sum reporting by Community Initiatives to the IRS. Getting booted out of Community Initiatives may mean Renne has lost her IRS cover.

Beene also volunteered that to the best of her knowledge, Renne's Foundation is in the process of dissolving. R.I.P.

Might that mean that dissolution may be a far more preferable option for Renne, versus full, transparent disclosure to the IRS, and to donors? Dissoluton, to prevent disclosure?

By mid-week, a source who spoke on condition of anonymity reported that the California Attorney General's office — presumably the A.G.'s Registry of Charitable Trusts that oversees operations of non-profits in California — had either investigated, or audited, Renne's Foundation.

The source further reported that Renne's Foundation may have had to return a \$50,000 grant to one of its donors, and may have expended the last of her Foundation's funds responding to the A.G.'s investigation.

The A.G. noted that is highly improper and very unusual business practice for a foundation that has received independent non-profit, public-benefit corporation status from the IRS — as Renne's Foundation had — to operate simultaneously as a so-called "project" of fiscal-sponsor entities such as Community Initiatives.

Community Initiatives reportedly severed its ties with Renne's Foundation formally, effective January 14 or 15.

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It is not yet known how many other clients of Community Initiatives that may also have their own IRS 501(c)(3) designation will have to divest of their “sponsorship” by Community Initiatives, assuming that if one non-profit (such as Renne’s) isn’t permitted to do this, there will be other organizations that will have to stop this unholy practice, too.

By January 18, not only had Laguna Honda Hospital removed from its web site its previous philanthropy web page link to Renne’s Foundation, Attorney General investigators also reported they would neither confirm nor deny any investigation of Renne’s Foundation.

“We were so shocked at being driven out of Laguna Honda — right after reporting irregularities with the Patient Gift Fund in 2010 — that we figured we had touched on major violations that Laguna Honda and the Department of Public Health were desperate to hide,” former Laguna Honda Hospital physicians Dr. Maria Rivero and Dr. Derek Kerr said.

“So we reported our findings about the patient Gift Fund; Volunteers, Inc.; and the Laguna Honda Foundation to the California Attorney General’s Registry of Charitable Trusts, the U.S. Attorney’s Tax Division, and the IRS. Had we not been ‘laid-off’ and harassed, we would have reported solely to the City’s Whistleblower Program,” the two doctors disclosed.

The A.G.’s office appears to have followed up on Kerr’s and Dr. Rivero’s ethical concerns.

Dissolution of Renne’s Laguna Honda Foundation appears to be delayed fallout from the scandal involving Laguna Honda Hospital’s raid of its patient gift fund in order to fund staff amenities, a raid set in motion by Laguna Honda’s previous Executive Administrator, John Kanaley, who died in 2009. The gift fund was eventually restored some \$350,000, following a long-delayed audit by San Francisco’s City Controller.

Gift Fund Donations Plummet, Again

The “Annual Report of Gifts Received,” issued by the San Francisco Department of Public Health’s CFO shows that in Fiscal Year 2011-2012 ending in June 2012, private giving to Laguna Honda’s patient gift fund dropped to just \$7,042, excluding a one-time \$20,000 donation from Safeway, Inc. for a nutrition project in the hospital.

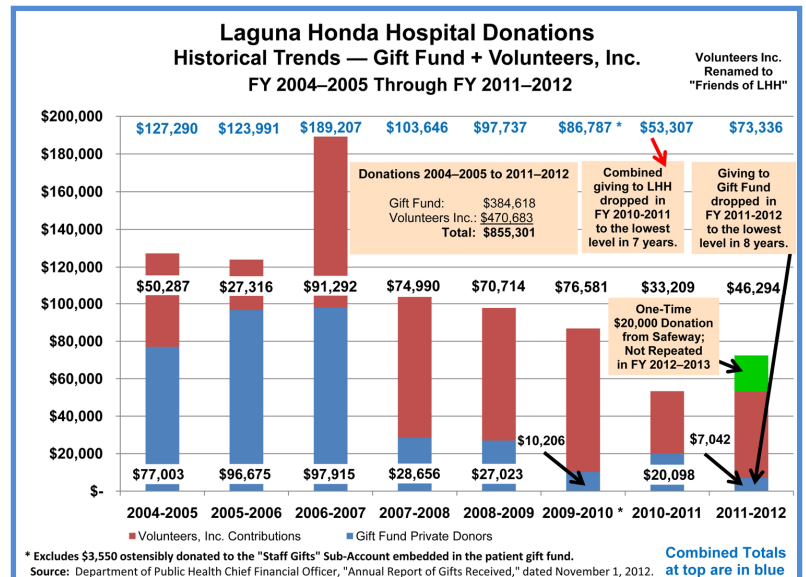
That \$7,042 represents the lowest level of private contributions to the patient gift fund since FY 2006-2007, when donations to the gift fund were 14 times higher, at \$97,915. Even going back to FY 2004-2005, the year after Ms. Renne formed her Laguna Honda Foundation, donations to the gift fund were ten times higher, at \$77,003.

Of interest, donations to the patient gift fund took a drastic “fiscal cliff” fall between Fiscal Years 2006–2007 and 2007–2008, plummeting from \$97,915 to just \$28,656 the year after Renne installed former Deputy City Attorney Marc Slavin as Laguna Honda’s Director of Communications in 2007.

Slavin’s abrasiveness with members of the public may have contributed to the decline in donations to the patient gift fund. Following the first fiscal cliff fall in contributions to \$28,656 to the patient gift fund during Slavin’s first year, donations slid further off the cliff, to just \$7,042 in 2011-2012, now five years into Slavin’s tenure.

Sadly, Slavin’s demeanor towards members of the public and neighbors of the hospital may have also prevented donations to Ms. Renne’s own Foundation.

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Volunteers, Inc. Support Dries Up

Since 1957, Laguna Honda Hospital Volunteers, Inc. has financially supported both the patients at Laguna Honda, and LHH's cadre of volunteers. In March 2012, Volunteers, Inc. re-branded itself, changing its name to "Friends of Laguna Honda." It also decamped from Laguna Honda Hospital, and moved its offices from 90 New Montgomery Street in San Francisco to an address in Mountain View, after its former president, Joseph Lehrer, stepped down.

As the graph of data from the Health Department shows, donations from Volunteers, Inc. to Laguna Honda and its Volunteer's Department have declined in the past five fiscal years, dropping by half — from \$91,292 in FY 2006-2007, to just \$46,294 in FY 2011-2012. But the CFO's data only shows part of the story.

Turning to Volunteers, Inc.'s Form 990 tax returns from calendar year 2010 to calendar year 2011, grants awarded by Volunteers, Inc. to Laguna Honda for patient recreation and other services (including bus trips off campus) plunged from \$171,261 in 2010 to just \$20,018 in 2011 (albeit, the \$20,018 grant more than likely came from Safeway, and may have been misreported by DPH's CFO as a donation to the patient gift fund).

The \$151,243 outright reduction in Volunteers, Inc.'s grants to Laguna Honda also tells only part of the story. Overall, Volunteers, Inc. reports on its tax returns that it had spent \$394,250 on patient amenities, recreation, refreshments, and other "program services" to hospital residents in 2010, but cut that amount to \$179,731 in 2011, a net loss of \$214,519 in various services to patients.

In 2011, the \$179,731 in program services spending for residents translates to just 49.4% of Volunteers, Inc.'s total expenses of \$363,932, down from 56.9% spent on program services from its total expense spending in 2009. The remainder in both years was eaten up by the fundraising, and management-and-general, expense categories.

Charity watchdog groups, such as GuideStar.org and Charity Navigator, suggest that the standard benchmark for non-profits is to spend at least 70% of their total expenses on "program services" to serve actual beneficiaries. Volunteers, Inc.'s spending of just 49.4% on program services in 2011 was fully 20% below the expected benchmark.

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Although Volunteers, Inc. awarded \$14,990 to Laguna Honda's Volunteer Services Department in 2010, its tax return shows that it eliminated any financial support whatsoever to the Volunteer Services Department in 2011, in addition to the \$151,243 grant reduction for patient amenities.

Between curtailing support to patients and completely eliminating support to actual volunteers of the hospital, Volunteers, Inc. cut its total spending on program services by \$230,000 across a single calendar year. Across the same period, its tax returns show Volunteers, Inc. tripled its spending on public relations, from \$11,072 to \$33,693.

Who Does Public Relations Slavin Work For?

Ms. Renne hand-picked Marc Slavin to be her "communications" expert at Laguna Honda Hospital. After all, as a former Deputy City Attorney, Slavin had been her public information officer while she was the then City Attorney.

Slavin informed this author shortly after he started at Laguna Honda in 2007 that his job was to "stop the negative publicity" about the hospital. He never clarified whether it was to stop negative publicity for Renne's Foundation, or for the Department of Public Health (DPH), which never had a public information officer assigned to LHH for 100+ years, until Slavin's arrival.

Between his base salary and fringe benefits, Slavin has cost taxpayers over \$950,000 across the six short years of his employment at Laguna Honda. His assistant, Linda Acosta, adds another \$500,000 in salary and benefits across those six years. Between them, \$1.5 million in taxpayer funds may have gone up in P.R. smoke and mirrors.

Slavin, of course, is the P.R. wizard who told the I-Team's investigative reporter Dan Noyes in May 2010 that Laguna Honda's "patient gift fund isn't for patients." His propaganda campaign continues.

In Laguna Honda's "*Summary of Work Goals*" presented to the Health Commission in June 2012, we learned that of the many goals for LHH's Communications Department run by Slavin is the task to "provide liaison services to the Laguna Honda Foundation." Nowhere are we told just what percentage of Mr. Slavin's work day involves communications with, or communications on behalf of, Renne's Laguna Honda Foundation. Taxpayers are just informed that this "task" is in the category of promoting "Community Partnerships." This is the closest we get to an admission that Slavin's day job includes strengthening the partnership with Renne's Foundation.

Magical Commingling of Funds

The unholy commingling of private- and public-sector funds began when Volunteers, Inc. awarded \$375,000 to hire staff for Ms. Renne's new Foundation in 2003, an expense completely unrelated to the exempt purposes for which the IRS awarded non-profit status to Volunteers, Inc.

The funds were used to hire a single staff member — CEO Susan Cook Hoganson — for Renne's Foundation, since non-profit corporations always look out to protect salaries of their CEO's.

As the *Observer* reported in "[A Foundation's Dirty Laundry](#)" (December 2012), the commingling of public and private funds between the City of San Francisco, Renne's Foundation, and Volunteers, Inc., has never been audited, adequately or otherwise. It's unclear to what extent California's Attorney General may have looked into the commingling of funds between the three entities.

In addition to the \$1.5 million in salaries and benefits funded by San Francisco's general fund for Slavin and Acosta to perform liaison work for Renne's Foundation across the past six years, the City provided free office space in Suite A-150 to house Renne's Foundation, replete with janitorial services supplied by City employee staff, and free utilities.

As previously reported in "[Commingling of Public and Private Funds](#)" in the *Observer's* May 2011 issue, Suite A-150 was remodeled in 2003 at a minimum cost of least \$50,095 from the City's general fund, including lighting and electrical work of approximately \$16,000; flooring work of approximately \$16,000; and painting of windows, floors, and ceiling of approximately \$17,000. Excluded from this minimum was additional electrical work and pulling computer cables into the suite, among other upgrades. Also excluded were furniture for the remodeled space, a photocopier, fax machine, computers, and kitchen appliances. At one point, there was a scramble to locate the computers donated to Renne's Foundation, since they were considered to be an asset that may have gone missing, however temporarily.

In 2009, work orders show that Laguna Honda tapped the general fund to support \$45,000 in printing fees through the City's Reproduction and Mail Services department, including almost \$10,000 to print 3,000 copies of Slavin's 7-inch-square, four-color, full-bleed booklet "The New Laguna Honda." This was a marketing piece whose production values and messaging appear to have been directed more towards encouraging private donations by wealthy donors to Renne's Foundation than it was to educate members of the public or residents of Laguna Honda about the new hospital, a key test of publication expenses required by the IRS.

An additional \$11,705 in City Repro work orders funded by the City's general fund was spent on a variety of opening day ceremony-related collateral materials, including ribbon cutting ceremony postcards, a "donor wall" brochure, Gala event signs and parking signs, Gala program booklets, a self-guided tour brochures, and other materials.

For the opening ceremonies of LHH's new replacement facilities, Laguna Honda Volunteers, Inc.'s tax returns show that the non-profit spent \$167,038 in expenses just to host opening events, as previously reported in "[Black-Tie Gala Event's \\$260,788 Expenses](#)" in the *Observer's* February 2012 issue. This was also an expense unrelated to the exempt purposes that the IRS awarded non-profit status to Volunteers, Inc.

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Shooting Herself in the Foot

An August 2006 report for Ms. Renne's Laguna Honda Foundation prepared by the Center for Health Design — a project of the California HealthCare Foundation (CHCF) — noted that her foundation “is a nonprofit public benefit corporation that raises funds to support advancements in healthcare at Laguna Honda Hospital and Rehabilitation Center in San Francisco.”

CHCF convenes meetings with stakeholders of its various projects to develop programs to improve delivery of healthcare. It is with some irony that CHCF considered Renne's Foundation to be a “stakeholder” in the evolution of Laguna Honda Hospital, since stakeholders are commonly understood to be institutions and individuals with a financial stake in an enterprise. What financial stake in Laguna Honda might Renne hold?

A stake in the liquidation of public assets to a private foundation, all in the name of public-private partnerships?

Given Renne's potential financial interest in Laguna Honda, it comes as no surprise that in the seven years since this report was issued in 2006, neither the Center for Health Design nor CHSF have commented on the failure of Renne's Foundation to raise one penny towards the \$15 million she had pledged to raise for Laguna Honda's capital campaign to acquire furniture, fixtures, and equipment for the replacement hospital.

Nor have either the Center for Health Design or CHCF commented on Renne's proposal to the Health Commission in early 2012 to spend nearly \$700,000 to upgrade Laguna Honda's patient auditorium, Gerald Simon Theater, so Renne's Foundation could “re-brand” the auditorium as a “community theater,” in effect creating a dedicated revenue stream for Renne's Foundation from on-going theater rentals.

On June 3, 2004, Renne published a guest opinion piece in the San Francisco *Chronicle* (“[Laguna Honda needs more than what bonds provide](#)”), claiming that the driving purpose governing formation of her Foundation was to raise private-sector funds for furniture, fixtures, and equipment for the new LHH.

But Renne shot herself in the foot, by claiming that “regardless of the [patient] population mix receiving services at Laguna Honda — a policy decision in the hands of the city's director of public health” — her Foundation had been established to meet the immediate needs of residents and other users. And she claimed the new LHH would “move Laguna Honda from a traditional medical model to a social residential model of care.”

Renne's phrase “regardless of the patient population mix,” may have unwittingly sent the message that displacing the frail elderly and disabled that Laguna Honda had traditionally served was OK, and that using the hospital for psychosocial mental health rehabilitation, instead, was completely acceptable and a decision best left to then-Director of Public Health Mitch Katz.

Renne's op-ed may have directly led to a drop in donations to LHH's patient gift fund, and may have effectively killed any chance to attract donors willing to contribute to her new Foundation. After all, Renne announced a major shift in the model of care to be provided at Laguna Honda, a change in the hospital's mission that may not have sat well with philanthropic donors. Charitable donations to the elderly are one thing, but “psychosocial rehabilitation” has a much smaller universe of supportive donors.

Renne should have known that announcing a shift from a medical model of care to a “psychosocial rehabilitation” model of care was not the best choice for stopping “negative publicity” about the hospital, and not the best choice for generating charitable giving. She lost, on both counts.

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Ms. Renne Fails to Respond

Ms. Renne was offered an opportunity to confirm or deny whether she is, in fact, dissolving her Foundation, and if not, what her plans may be, but she failed to respond by press time.

In particular, Renne did not respond to questions about whether the Attorney General had recommended that community benefit corporations such as hers that possess 501(c)(3) designation from the IRS should not simultaneously also be administered as a “project” of fiscal sponsors such as Renne maintained with Community Initiatives.

Renne failed to comment on why her Foundation may have had to return a \$50,000 grant to one of her donors and when that may have occurred. She also failed to comment on whether the Attorney General had audited the books of her Laguna Honda Foundation.

That Renne wouldn’t provide clarity about any of these issues is very sad. Sister Miriam Walsh, who devoted her career to assisting Laguna Honda’s residents before she passed away, would have been very interested in hearing Renne’s explanations.

Given an opportunity to comment, Ms. Renne appears to have chosen to withhold information again, just as she has chosen to hide from the IRS, San Francisco’s Health Commission, and the charity-donating public, any and all details concerning her Foundation’s revenue and expenses. Could it be that Renne concluded that by withholding comment, she’d stop further negative news about Laguna Honda from being aired in the media, hoping dissolution will halt demands for full disclosure?

San Francisco’s Health Commission still has work to do: It should fully audit the commingling of private and public funds at LHH, and unplug LHH’s P.R. division.

After all, the Health Commission has an ethical responsibility to formally notify Renne that the Commission expects that any funds — and all assets — remaining in her Foundation upon dissolution should be donated ***only*** to Volunteers, Inc., or to LHH’s patient gift fund, for direct patient benefit.

Renne shouldn’t be let off the accountability hook quite so easily.

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