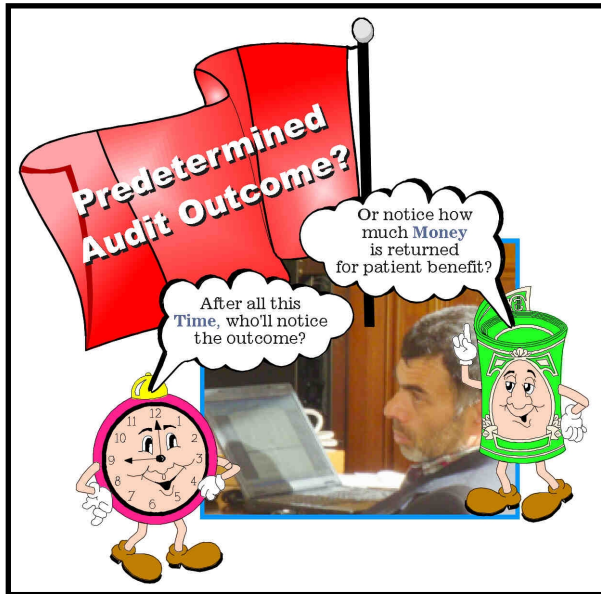


Public hospital's processes auditing patient gift fund raises many red flags

by Patrick Monette-Shaw

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Director of public health Mitch Katz's September 2 press release prejudged the audit outcome.



Had Abraham Simmons insisted on an independent audit, red flags may have been avoided.

Several red flags about processes San Francisco's city controller is using to audit Laguna Honda Hospital's (LHH) patient gift fund have been raised.

The audit was scheduled to conclude Friday, October 15, but it won't be released until the end of October, after LHH is permitted to comment on a draft report of the audit. In advance of public release of the audit results, several red flags are already of concern.

Disconnects between the scope of the audit, objectives of the audit, and procedures that will be used during the audit, raise disturbing red flags.

As this Examiner previously reported, during the San Francisco Health Commission's Joint Conference Committee (JCC) meeting held at LHH on September 28 commission president James Illig thanked whistle-blowers for exposing patient gift fund problems.

Two days later, LHH received a deficiency citation from California's Licensing and Certification Division asserting LHH had circumvented its own requirements for altering hospital policies when oversight protections were removed from the patient gift fund policy # 45-01 on April 15; the new State citation will be explored in an upcoming article by this Examiner.

There were other important announcements made during the JCC's September 28 meeting.

Gregg Sass, chief financial officer for the Department of Public Health, stated that interest earned allocations from the patient gift fund that were deposited into staff sub-accounts have been refunded to patient accounts. The interest earned allocation to staff accounts has been previously reported by the Controller's Office to have been \$100,485, but Sass has not yet indicated whether the full amount of improper interest allocations will be restituted for patient benefit.

Monique Zmuda, the City's Deputy-Controller, also announced that the staff sub-accounts were now "vacant" and separated from the patient gift fund.

On September 2, director of public health Mitch Katz claimed that two checks totaling \$37,102 taken from patient donations by LHH Volunteers, Inc., but deposited into staff accounts, had been refunded for patient use.

Recent public records also show that \$1,800 taken from the patients' Activity Therapy account to pay for staff CPR classes had been refunded.

To date, this totals approximately \$139,387 that is thought may eventually be restituted to the patient gift fund, even though no audit report has been released to the public quite yet.

The Health Commission has been asked to review \$69,000 spent from the staff sub-accounts since July 2005, which may push the amount to be restituted for patient use even higher.

But that amount may still be insufficient.

Currently, nobody knows how much of the \$745,000 that went missing from the total gift fund balance between 2004 and 2005 — or how much of the \$649,341 that went missing from the cash balance due to questionable spending between 2004 and 2010 — will actually be recommended by the Controller's audit to be restituted for patient benefit.

Assuming \$200,000 may be restituted, that's just under one-quarter of questionable expenditures, an amount inadequate by many measures, since there has been no explanation how \$1,956,433 million in major bequests to the patient gift fund vanished between 2004 and 2010.

During the September 28 JCC meeting, representatives from the Controller's Office outlined how the audit is proceeding.

The Controller's audit director stated the *scope* of patient gift fund audit would address allegations of: 1) Misappropriation of charitable donations for staff support, 2) Misappropriation of interest earned from donations for patients, 3) Business income and fees claimed as donations, 4) Inappropriate use of patient funds for staff expenses, and 5) Charging of apparent LHH operating expenses to the patient gift fund.

Objectives of the controller's audit are: 1) To determine if LHH has adequate internal controls, and policies and procedures in place to administer the patient gift fund in accordance with the city's administrative code; 2) To determine whether gift fund expenses were properly used in accordance with the administrative code and are accurate, properly classified, and recorded in the proper accounting period; and 3) To determine whether gift fund donations reported were accurate, properly classified, and adequately described.

During the September 28 meeting, audit *procedures* announced included that the Controller's Office will: 1) Review applicable policies and procedures and the city's administrative code regarding administration of the gift fund; 2) Review the adequacy of LHH's procedures for collecting, reporting, and recording donations from the public; 3) Review — apparently only on a sample basis — gift fund expenditures and supporting documentation to determine if LHH had been in accordance with the administrative code, and to ensure that expenditures were directly related to patients; and 4) Review **all** contributions to staff education sub-account funds to determine if they were properly allocated.

This presents a number of concerns.

First, why would **all** contributions to staff education sub-accounts be reviewed to determine whether they were properly allocated, but **all** contributions specifically earmarked as restricted to patient use only may **not** be reviewed as part of the "procedure" to determine whether they were properly allocated to patients only?

Second, why is a "sample basis" of gift fund expenditures being used to determine whether **all** expenditures complied with the administrative code? How were the "sample" expenditures being examined determined? Why aren't all expenditures being examined, rather than just a sample?

What biases are being introduced to an audit, by using only a "sample" of expenditures? Who set the parameters of the "sample" that will be audited to ensure expenditures actually benefitted patients?

The disconnect between audit “scope,” “objectives” and “procedures” suggest that this audit may be deeply flawed, even before the public is allowed to see the audit report.

The biggest red flag is Dr. Katz’s September 2 press release, in which he appears to have predetermined the outcome of the audit still underway.

As this Examiner has previously reported, Abraham Simmons — the chairperson of the Citizen’s General Obligation Bond Oversight Committee — is also the point person for the Citizen’s Audit Review Board, which appears to be the single city agency permitted by the city charter to hire external auditors when perceived or real conflicts of interest may adversely affect an audit of city programs.

Health commission president Jim Illig also alluded on September 28 to “new [patient gift fund] procedures going forward” may result in a “best outcome.”

How could Illig be aware of the need for new procedures even before the audit is complete and released to the public, unless the Health Commission has already been advised by the Controller’s office that changes need to be made to gift fund oversight procedures?

Given the red flags that have been raised even before the audit results are released, **will Simmons hold a public hearing** of the Audit Review Board to review the Controller’s disposition of this whistle-blower complaint and the results of the gift fund audit?

Or will the red flags flying over Laguna Honda Hospital simply be ignored?

A key question will be whether the final audit report will address concerns raised in the State citation against LHH on September 30.

After all, hanging in the balance is whether an independent audit might address these red flags ethically, or whether the audit being conducted by the city controller now underway will ignore the many red flags.

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