COST SHIFTING: PART 2

PATIENT DONATIONS PAY FOR HOSPITAL OPERATIONS:
Patient Activities and Transportation, and Staff Amenities

at

LAGUNA HONDA HOSPITAL

Report to the San Francisco Health Commission, the Civil Grand Jury, and the City Controller’s Whistleblower Program

September 1, 2010

On August 20, 2010, we reported on the shifting of Dietary Department catering expenses from the LHH Operations budget to the Patient Gift Fund. We found that this new Gift Fund expense had started in November 2004, and drained $175,000 from the Gift Fund over the next five years. This information is revisited and tabulated in Section F, below.

We now report on similar cost shifts from Hospital Operations to the Gift Fund for Patient Activities and Transportation Services — as well as for Staff Amenities. This analysis is also based on over 1,300 pages of public records of expenses charged to the LHH Patient’s Gift Fund.

A. Overview of the Cost Shifting Process

The average charges to the Gift Fund for Patient Activities, Transportation, and Staff Amenities were:

- $40,000/year for the three-year period from 2002 through 2004.
- $94,000/year for the three-year period from 2005 through 2007.
- $220,000/year for the two-year period from 2008 through 2009.

In other words, expenses for patient activities, transportation, and staff amenities more than doubled in 2005 — and doubled again in 2008 (Figure 1). During this time the Hospital census declined by 25% (1026 in 2004 to 780 in 2009).

Meanwhile, the cash balance in the Gift Fund was steadily drained (Figure 2). Importantly, we are unable to account for the $745,000 loss of Gift Fund assets between December 2004 and June 2005 shown in Figure 2.

The inverse relationship between the patient gift fund’s expenses shown in Figure 1, and the gift fund’s cash balances shown in Figure 2, is striking.
Figure 1: Total Gift Fund Expenses

Total Patient Gift Fund Expenses
By Fiscal Year
2002–2003 to 2009–2010 (Total: $1,311,862)


Incomplete data for FY 09-10; Missing data for "Express" Sub-Account and Other Sub-Accounts

Figure 2: Cash Balance by Fiscal Year End

LHH Patient Gift Fund
Cash Balance by Fiscal-Year End
December 2004 – June 2010

Source: San Francisco City Controller’s Office
These rising expenditures were **not** due to an increase in the amount or frequency of patient activities, amenities, or bus trips. They were **not** due to an increase in the patient population, since the LHH census had **fallen** by 25%. The root cause was the altered definitions of “patient amenities” and “hospital operations.” Starting in 2005, the long-standing distinction between a quality-of-life amenity and the hospital’s required minimum obligation to offer basic services was blurred or disregarded.\(^1\) Traditional LHH operational expenses were increasingly shifted to the Patient Gift Fund.

Then something unprecedented occurred. In 2005, expenses for staff training, amenities, and perquisites were routinely and increasingly taken out of the Patient Gift Fund. Most of these charges were dubious. The importance and size of these Staff funds grew. On February 18, 2010 they were enriched with a **$100,450** “interest” allocation. Paradoxically, when the Gift Fund faced depletion in 2009, it was the patient activities that were cut — while amenities for the most highly-paid LHH staff were expanded.

### B. Staff Amenities and Perquisites

In the five fiscal years between 2001 and 2005, only one impermissible staff expense was recorded: a $1,065 airfare reimbursement for LHH’s Chief Financial Officer in 2002.

Starting in July 2005, however, these staff perquisites became routine and averaged **$6,000/year**, and then rose exponentially in 2009 after Mivic Hirose became the hospital CEO, as shown in Figures 3 and 4 below:

**Figure 3: Staff Amenities — Summary**

![Staff Amenities: Catered Meals and Training (Summary)](chart)

\[\text{Staff Amenities: Catered Meals and Training (Summary)}\]

\[\text{Charged to LHH Patient Gift Fund}\]

\[\text{Fiscal Year 2002 – 2010 (Total: $76,013)}\]

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenses in Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$1,065</td>
</tr>
<tr>
<td>2003-2005</td>
<td>$0</td>
</tr>
<tr>
<td>2006</td>
<td>$6,959</td>
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<tr>
<td>2007</td>
<td>$7,673</td>
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<tr>
<td>2008</td>
<td>$6,618</td>
</tr>
<tr>
<td>2009</td>
<td>$18,176</td>
</tr>
<tr>
<td>2010</td>
<td>$35,522</td>
</tr>
</tbody>
</table>

Source: Department of Public Health, “Sources and Uses” Statements

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\(^1\) John Kanaley was appointed as LHH’s Executive Director in November 2004. His background was in marine engineering, and included several years overseeing construction projects for Kaiser Hospital in Fresno. From 2000 to 2004 he served as Associate Administrator for Plant Services at SFGH – without clinical or Skilled Nursing Facility responsibilities. One academic qualification was a Masters of Public Health (MPH) degree from Fresno State University. This MPH was awarded in 2001 for a thesis titled “The Evaluation of a Hazardous Waste Operations and Emergency Response Student Manual,” written three years before becoming CEO of the largest Skilled Nursing Facility in the United States.
These staff perquisites were paid by the Patient Gift Fund through newly created “staff sub-accounts” named “Administration Education” (HLADMI), “Nursing Education” (HLNURS), and “Physician Education” (HLMEDI). Although some of the funds spent from these staff accounts had been specifically donated for staff development, most were not, as shown in Table 1 below.

### Table 1: Staff Perquisites Charged to Patient Gift Fund

<table>
<thead>
<tr>
<th>Staff Education Sub-Accounts</th>
<th>Actual Amount Spent</th>
<th>Amount Covered by Grants</th>
<th>Questionable Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration Education (HLADMI)</td>
<td>$26,613</td>
<td>$0</td>
<td>$26,613</td>
</tr>
<tr>
<td>Nursing Education (NINURS)</td>
<td>$33,267</td>
<td>$2,112</td>
<td>$31,155</td>
</tr>
<tr>
<td>Physician Education (HLMEDI)</td>
<td>$16,133</td>
<td>$4,951</td>
<td>$11,182</td>
</tr>
<tr>
<td>Total</td>
<td>$76,013</td>
<td>$7,063</td>
<td>$68,950</td>
</tr>
</tbody>
</table>

**Note:** We do not count or challenge the legitimate expenditures of educational grants to Nursing’s HLNSEL account, nor those to Medicine’s HLPHEP and HLPEDP accounts.²

² Staff educational grants had been received and spent by the Medicine and Nursing departments. They were kept in separate accounts named (coded) as “Physician Education Program” (HLPHEP and HLPEDP) and “Nursing Education for Leadership” (HLNSEL). We did not include the expenditures from these accounts in our analysis of Patient Gift Fund expenses.

The HLPHEP account was set up around 2002, to receive some $5,000 from Pharmaceutical companies for physician education. When HLPHEP was closed in December 2005, $326 of residual grant money was transferred to the new HLMEDI account. The HLPEDP account was then set up to receive and spend $13,500 in educational grants from UCSF...
The staff benefits provided included:

- Catered meals for professional staff
- Conference and training fees
- Pedometers and gift-bags for nurses
- Travel expenses
- Employee of the month awards

There is a dissonance with having staff accounts in a Patient Gift Fund. City Administrative Code Section 1.100-201 that governs the LHH Gift Fund is clear that donated money should benefit patients exclusively. By law, by existing LHH policy, and by historical precedent, using Patient Gift Funds for staff support was not allowed. Somehow, this standard was disregarded starting in 2005 when three new staff accounts were created — with funds donated by LHH Volunteers, Inc. that were apparently intended for patient activities. Interest derived from bequests to the Patient Gift Fund, totaling $100,450 was then improperly allocated to these staff accounts. Staff training and development is generally considered a hospital operational obligation. Funding for staff training is typically incorporated in labor union contracts with the City.

C. Defining “Basic Hospital Services” versus “Patient Amenities”

The difference between legally-required “basic care” — a.k.a., hospital operating expenses — versus supplemental patient amenities is best defined by Federal and State regulations governing Skilled Nursing Facilities, especially Title 22 of the California Code of Regulations (CCR). Knowledge of these regulations is necessary to understand the LHH Gift Fund.

I. Definition of Activities

CCR §72379. Activity Program — General

An activity program means a program which is staffed and equipped to encourage the participation of each patient, to meet the needs and interests of each patient and to encourage self-care and resumption of normal activities.

and Forest Pharmaceuticals. When HLPEDP closed in June 2009, $4,125 of residual grant money was transferred to HLMEDI. So HLMEDI received a total of $4,451 in transferred educational grant money. Combined with a $500 UCSF grant deposited into HLMEDI on February 1, 2007, the HLMEDI account has held $4,951 of grant money donated exclusively for physician education.

Similarly, the Nursing department set up the “Nursing Education for Leadership” account HLNSEL to receive and spend an educational grant from the G&B Moore Foundation. When HLNSEL was closed, residual grant money of $1,112 was transferred to HLNURS. Another grant of $1,000 from the American Psychiatric Nursing Association was deposited into the HLNURS account. So, a total of $2,112 in the HLNURS account was donated specifically for nursing staff development. HLNURS also took in four honoraria totaling $1,223.

But if these payments were obtained for lectures given during work hours, as we surmise, they are not true “gifts.” Honoraria received on company time should go to either the hospital or department operations budget, not the Gift Fund.

Therefore, some $7,013 among the $76,053 spent from the Gift Fund was specifically donated for staff development ($4,951 in HLMEDI and $2,112 in HLNURS). The remaining $68,950 shown in Table 1 that was spent on staff benefits is dubious.
II. Supplies for Activities

CCR §72387. Activity Program — Equipment and Supplies

Each facility shall provide equipment and supplies for both independent and group activities and for patients having special needs.

III. Activity Program Requirements

CCR §72381. Activity Program — Requirements.

(b) The activity program shall consist of individual, small and large group activities which are designed to meet the needs and interests of each patient and which include, but are not limited to:

1. Social activities.
2. Indoor and out-of-doors activities, which may include supervised daily walks.
3. Activities away from the facility.
4. Religious programs.
5. Opportunity for patient involvement for planning and implementation of the activity program.
6. Creative activities.
7. Educational activities.
8. Exercise activities.

(c) Activities shall be available on a daily basis.

D. Patient Activities and Amenities

The raison d’etre of the Patient Gift Fund is to pay for life-enhancing patient activities and amenities that are not otherwise provided by LHH as part of its minimum obligation. LHH’s own Patient Gift Fund Policies, in force from 1993 to 2010, made this explicit:

“This restricted fund is available neither to support the minimum obligation of the City to operate the hospital nor to fund routine City expenditures; rather the fund shall benefit residents in general to enhance the quality of life of residents beyond the basic care provided by the City at the Hospital.”

From 2001 to 2007, the Patient Gift Fund expended an average of $17,392/year (range $2,594 to $29,741/year) for these extra amenities. These extras included the Art with Elders Program, tickets to 49’ers and Giants games, TVs, magazines, and live entertainment.

Then in 2008, Gift Fund expenses for patient activities and amenities surged to $94,570/year.

In the first nine months of 2009, expenses had already reached the 2008 level. The 2009 annualized Gift Fund expenses for patient activities reached a whopping $118,252. This is shown in Figure 5, below:
However, this eight-fold rise in expenses from $17,392/year at baseline to $118,252 in 2009 was not accompanied by an eight-fold increase in patient activity offerings. Instead, Activity expenses that were previously assumed by the hospital’s Activity Therapy Department operations budget were increasingly off-loaded onto the Patient Gift Fund. Big cost-shifts were noted for:

- A “Music Performance Fund” (music and entertainment)
- Money for Ward Activities including supplies and prizes for games
- Television repairs/conversions

E. Patient Transportation Services

As far back as 2001, and for years before, the Patient Gift Fund paid for recreational bus trips and similar specialized patient transportation services. The average cost was $4,168/year from 2001 through 2005 (range $0 to $10,218/year). These transport services included:

- Tour Buses (InteliTran, ATC Vancom, Franciscan Lines)
- Semax Medical Transportation
- Gray Lines, Delancey Street Transport.

Then in 2005, patient transport costs zoomed up to $39,641. By 2008, patient transportation charges to the Gift Fund climbed to $65,848. This is shown in Figure 6, on the next page:
But the frequency of restaurant and sight-seeing bus trips did not increase ten-fold by 2005, nor did they multiply by 17 times in 2008.

What happened was that patient transportation costs were shifted from the hospital’s Activity Therapy Department budget, and onto the Patient Gift Fund. In 2008 and 2009, new and unprecedented transportation charges to the Gift Fund’s “LHH Express” account amounted to $42,580, and over $20,933, respectively. These new “LHH Express” charges, for the use of LHH-owned tour buses, brought the Gift Fund’s transportation expenses to record highs.

As a result, from 2005 to 2010 these newly-shifted transport costs (i.e., costs above the baseline of $4,168/year) drained $197,342 from the Patient Gift Fund.

When the alarm was sounded about the depletion of the Patient Gift Fund in late 2009, restaurant bus trips were cut by 65%. Sight-seeing bus trips for Alzheimer patients confined to locked wards were cut by 50%. Instead of shifting these transportation costs back to Operations budgets, patient services were cut. Although LHH denied making these cuts, on May 19, 2010, State Licensing & Certification investigators issued a citation against LHH for cutting these required patient activities.
F. Dietary Catering Costs — Revisited

Figure 7 summarizes the cost shifting of LHH’s Dietary Department catering services to the Patient Gift Fund, as described in our prior memo of August 20, 2010. Note that these costs were not charged to the Gift Fund before November 2004:

Figure 7: Dietary Department Catering Costs

Source: Department of Public Health, FAMIS Accounting System, Dietary Standing Orders

G. Miscellaneous Operating Costs Charged to Gift Fund

A number of other “miscellaneous” hospital operational expenses were shifted onto the Patient Gift Fund after 2005. For example, food and supplies for the animals at LHH’s Farm, as well as candy and supplies for the Patient Canteen, used to be operating expenses. Beginning in 2008, these supplies, provided by Alliant Enterprises, totaling $9,623 were newly-charged to the Gift Fund.

Other Gift Fund charges totaling $16,497 that should have been Operational expenses included:

- Sterilex, Inc. charged $2,482 for Clinic & Lab Supplies, Minor Furnishings.
- Sterling Art Services charged $5,015 for museum-quality frames for pictures placed in the administrative suites.
- Art for Healing charged $9,000 for an evening “Earthquake Day Celebration” by invitation only – a public relations event.

There were also charges of $9,572 for medical and dental equipment for patients. These, however have long-been considered legitimate Gift Fund expenses, and are not questioned.
In sum, the questionable “Other Miscellaneous” operations costs charged to the Patient Gift Fund since 2005 depleted another $26,120.

Conclusion:

There was a marked rise in Patient Gift Fund expenses starting in July 2005, in 2008, and again in 2009. At the same time, the Gift Fund cash balances dropped each year. This was shown in Figures 1 and 2 previously.

The main cause was Cost-Shifting of hospital operational expenses onto the Patient Gift Fund. These cost-shifts were pronounced in the following areas:

- Activity Therapy Department — Patient Activities and Amenities
- Activity Therapy Department — Patient Transport Services
- Dietary Department — In-House Catering Services

These two departments withdrew $550,000, while miscellaneous operating expenses tapped another $26,000, for a total debit of $576,000 for the Gift Fund. These numbers are shown in Table 2, below:

Table 2: Cost-Shifting From "Operations" Budget to Patient Gift Fund

<table>
<thead>
<tr>
<th>Category of Expenses</th>
<th>Actual Expenditure Amount</th>
<th>Net Overspending Above Baseline Amount (Cost Shifting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dietary Department Catering Costs</td>
<td>$175,162</td>
<td>$175,162</td>
</tr>
<tr>
<td>Patient Activities and Amenities</td>
<td>$334,563</td>
<td>$178,039</td>
</tr>
<tr>
<td>Patient Transportation Costs</td>
<td>$234,852</td>
<td>$197,342</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$744,577</strong></td>
<td><strong>$550,543</strong></td>
</tr>
<tr>
<td>Other Miscellaneous Costs</td>
<td>$35,692</td>
<td>$26,120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$780,269</strong></td>
<td><strong>$576,663</strong></td>
</tr>
</tbody>
</table>

Although most of these charges were for services that benefited patients, they had previously been paid by the LHH Operations Budget or departmental operations budgets. LHH had good reason to pay for these patient services from operations budgets — most of the services were required by LHH’s Distinct-Part Skilled Nursing Facility license. So the cost shifting was also an obligation-shift.

While these cost-shifts “saved” money for other hospital operations, they depleted a minimum of $576,000 from the Patient Gift Fund over five years.

Also starting in 2005, but dramatically increasing in 2009, were charges to the Patient Gift Fund for lavish — and impermissible — staff perquisites. Although we did identify some $7,053 in bona fide educational grants to the HLNURS Nursing account and the HLMEDI Medicine account (none to the HLADMI Administration account), this leaves $68,950 in questionable “staff education account”
expenses from the Gift Fund. These staff expenses of $68,950, detailed in Table 1 above, should also have been paid by the Hospital’s Operations budget.

It is believed that the resulting “surplus” of $645,000 gained by the LHH operations budget since 2005, freed up funds for new administrative expenses, such as:

1. A series of lavish remodels of the Administrative suites and conference rooms in the A wing. These included new high-end furniture, elaborate window treatments, new flooring, and two-toned paint.
2. Remodeling and faux wood flooring for the Staff Education Department
3. Costly training opportunities for high-level staff. For example, in 2009 the LHH Chief of the Medical Staff was sent to a Ritz-Carlton Hotel in Florida for a 3-day “Chief of Staff Boot-Camp,” at a cost of $1,891. At the time, City physicians had given up all their training and educational benefits in response to the City’s fiscal crisis.
4. Expensive public relations campaigns by the LHH Government and Community Relations Department, including thousands of glossy, four-color, full-bleed “Grapevine” newsletters distributed throughout the hospital, as well as costly four-color, full-bleed brochures, posters, banners, Plexiglas display cases, and stationery.
5. Gourmet-catered retreats, gift-bags and other operational amenities for administrative staff.

Such administrative perquisites and amenities may not have been available were it not for the $645,000 in operational costs shifted to the Patient Gift Fund.

More importantly, what happens once the Patient Gift Fund is exhausted?

How will these patient activities, amenities, transport services, and catering services be funded? Instead of curtailing restaurant bus-trips and musical entertainment for patients, why not restore these needed basic activities to the LHH operations budget — as was the case for decades before 2005?

It is worth noting that when the depletion of the Gift Fund became apparent, LHH opted to cut patient services to preserve funds — even while staff perquisites paid by the Gift Fund escalated. In fact, on February 18, 2010, $100,450 in “Interest Earned” was deposited into the staff accounts to ensure they would abound with funds, despite cut-backs everywhere.

In the midst of the worst fiscal recession in recent memory, Cost-Shifting fostered the illusion that there was such a thing as a “free lunch” — for the most highly-paid executives and professionals at LHH. Perhaps this improved upper-level staff morale. But it was done at the expense of Patient Gift Fund donors, and LHH patients who are the intended recipients of Gift Fund assets. Nevertheless, it created an aura of largesse around LHH managers, who simultaneously promoted the newly-adopted LHH value: “Our Patients Come First.”

Recommendations:

We recommend:

1. Review the cost shifts that were implemented in 2005, 2008, and 2009. Refer to Title 22, to assess if Patient Gift Funds were used for required basic services instead of quality-of-life patient amenities.
2. Assign required operational expenses to the Operations budgets to prevent insolvency of the LHH Patient Gift Fund.
3. Restitution of Patient Gift Funds improperly spent for required hospital operations.
4. Abolish payments for staff perquisites by the LHH Patient Gift Fund.
5. Restitution of the portions of the $68,950 deemed improperly taken to pay for staff perquisites.
6. Restitution of the $100,450 in “Interest Earned” allotted to the Staff accounts in 2010.

We welcome comments and questions regarding this analysis and our recommendations. Supporting documents are available upon request.

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