



CALIFORNIA STATE AUDITOR

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FACT SHEET

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The California State Auditor released the following report today:

Salinas Valley Memorial Healthcare System

Increased Transparency and Stronger Controls Are Necessary as It Focuses on Improving Its Financial Situation

BACKGROUND

Established to improve the health of residents in its geographical health care district and beyond, the Salinas Valley Memorial Healthcare System (Health Care System) by law has an elected board of directors (board) made up of five registered voters residing in the district, which is accountable to the voters. The board must abide by the Ralph M. Brown Act (Brown Act)—which requires local boards to conduct their meetings in an open manner. Further, several state departments—the Office of Statewide Health Planning and Development, the State Controller's Office, and the Department of Public Health—have some oversight responsibilities over health care districts and have the ability to penalize them if they do not comply with reporting requirements.

KEY FINDINGS

During our review of the fiscal management of the Health Care System, we noted the following:

- In violation of the Brown Act, the board discussed proposed compensation increases for the executives in closed sessions—two board members confirmed that executive compensation was always discussed in closed session although they did not vote on compensation items in closed session.
- The board targeted compensation for Health Care System executives at the upper level of industry practices, and all employees received generous health care benefits and paid time off.
 - ✓ It was unclear what compensation the former chief executive officer (CEO) had received or was entitled to because of changes in board membership, lack of a written employment contract, and the various agreements and retirement plans enacted over the years.
 - ✓ With seven separate investment plans and a severance package that was 18 times his average monthly salary, the former CEO's retirement and severance benefits totaled \$4.9 million between 2008 and 2011, most of which were paid to him before he retired. This was in addition to the annual pension of \$115,000 he will receive during retirement.
- The Health Care System disbursed \$21.6 million between 2006 and 2010 to businesses that board members and executives reported as economic interests. Moreover, either the former CEO or the board may have violated conflict-of-interest laws in the two relationships we reviewed.
- The Health Care System lacks a policy and written procedures for making donations and funding community events to ensure that it does not make gifts of public funds. Of 14 community funding recipients we reviewed, the Health Care System could not demonstrate that all or a portion of the disbursements to 11 recipients were made after considering whether they furthered its public purposes.
- The Health Care System lacks specific policies and procedures that outline how it ensures that noncompetitively bid contracts and vendor selection results in the best value. We reviewed eight of these contracts and in only one case could the Health Care System demonstrate that it attempted to ensure the best value was received from the selected contractor.
- After it began experiencing operating losses in fiscal year 2009–10, the Health Care System cut its staffing by 341 positions and implemented other cost-saving initiatives to help improve its financial condition.

KEY RECOMMENDATIONS

We make several recommendations to the Health Care System regarding executive compensation matters, including that it develop a formal policy and establish processes that document all decisions, clearly indicate compensation matters on the agendas for board meetings, and ensure that these issues are discussed only in open sessions of board meetings unless otherwise legally allowed. Other recommendations are geared towards ensuring that individuals engage only in appropriate business relationships with respect to economic interests, including that it engage an independent investigator to advise it on its business relationships and implement the recently updated conflict-of-interest policy. Additionally, in ensuring that the Health Care System does not make gifts of public funds, we recommend it implement a policy and written procedures for community funding. Finally, it should require employees to fully document the steps they take in awarding contracts when not required to use a competitive process.

