



# Memorandum



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To: John H. Copeland, Chair, Miami-Dade County Public Health Trust (PHT)  
and Member, PHT Board of Trustees

Eneida Roldan, M.D., M.P.H., M.B.A.  
President and CEO, Jackson Health System

From: Christopher Mazzella, Inspector General

Date: October 28, 2010

Subject: *OIG Final Audit Report Re: Audit of the Management and Services  
Agreement Between the Public Health Trust of Miami-Dade County and  
Foundation Health Services, Inc., Ref. IG09-98*

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Attached please find the above-captioned final audit report. This audit covered selected Foundation Health Services, Inc. (FHS) activities and expenditures, pursuant to its agreement with the Miami-Dade County Public Health Trust (PHT). FHS is a not-for profit, wholly-owned affiliate of the Jackson Memorial Foundation (JMF), the charitable fund-raising arm of the PHT and Jackson Health System (JHS). FHS was founded with the encouragement of the PHT in order to manage the Jackson Memorial Hospital International Program (JMHI). Expanded concierge and hospitality services were later added to FHS' responsibilities in 2008. At present, FHS activities are funded at \$7.2 million annually for the International Program and \$2.1 million for concierge and hospitality services, pursuant to the latest PHT resolutions.

This report will be the first in a series of reports that the OIG will issue regarding FHS activities and expenditures pursuant to its agreement with the PHT. Later audits may include our examination of FHS' use of consultants, employee out-of-town travel and entertainment expenses, and performance reporting. Our objectives for this current audit were to determine the effectiveness of FHS internal controls intended to minimize misuse and wasteful spending by those employees using FHS-issued credit cards and to prescribe requirements related to FHS' procurement and accounting for office equipment. For reading convenience, a one-page abstract of the report follows.

We provided a copy of this report, as a draft, to the Chief Executive Officers for Foundation Health Services and the Jackson Health System. Both FHS and JHS responded to the draft report, and their written responses are appended to the final report as Appendix A and B, respectively. In general, FHS disagreed with our findings primarily taking issue with the OIG's perspective and the standards that we applied when examining its expenditures and operations. FHS asserts that it is a private non-profit business and takes issue with the fact that the OIG "unfortunately chooses to analyze FHS from a public perspective."

In its response, JHS expressed support for its International Program and its “desire to continue to pursue the international market share.” JHS does state that its “protocols demand transparency, especially when dispensing publicly funded dollars.”

The final report includes a general summation of FHS’ response and the OIG comments thereon (see Section IV). The report also includes FHS finding-specific responses and the OIG rejoinder to each, which are located in the body of the report at the end of each finding.

In accordance with Section 2-1076(d)(2) of the Code of Miami-Dade County, the OIG requests to be provided with a status report in 90 days addressing the issues and recommendations provided herein. We request this report from the PHT/JHS on or before January 25, 2011. As earlier noted, additional reports will be forthcoming. These and status reports received from the PHT/JHS will be distributed to the stakeholders listed below.

Lastly, the OIG would like to thank the FHS and JMF staffs for making their records available in a timely manner and for the courtesies extended to OIG auditors during the course of this review.

#### Attachment

cc: Hon. Carlos Alvarez, Mayor, Miami-Dade County  
Hon. Dennis C. Moss, Chairman, Board of County Commissioners  
and Members, Board of County Commissioners  
George M. Burgess, County Manager  
Alina Hudak, Assistant County Manager  
Cathy Jackson, Director, Audit and Management Services Department  
Charles Anderson, Commission Auditor  
Diana Salinas, Corporate Director and Chief Compliance Officers, JHS  
Marlene Berg, Audit Director, JHS  
Rolando D. Rodriguez, President and CEO, Foundation Health Services  
Alan T. Dimond, Chair, Board of Directors, Foundation Health Services, Inc.  
Clerk of the Board (copy filed)

## ABSTRACT — FINAL AUDIT REPORT IG09-98

FHS is a not-for-profit, wholly-owned affiliate of JMF that was created for the sole purpose of managing the PHT's International Program and providing hospitality and concierge service to international and domestic patients receiving care at Jackson Health System facilities. FHS is one hundred percent funded by public dollars from the PHT.

We observed that FHS operations lacked basic financial controls, leading to wasteful credit card spending on unnecessary and unreasonable items and services. Ineffectual, and sometimes nonexistent, oversight and poor documentation of credit card expenditures precluded transparency and accountability of expenditures of public funds by FHS employees. In addition, OIG auditors identified over \$100,000 of questionable credit card expenditures by FHS employees, including:

- \$37,414 of local meals and dining
- \$6,295 for a 5-day cruise
- \$8,271 for goods and services of a personal nature
- \$7,154 for flowers, gifts, and birthday cakes
- \$12,290 of local limousine services
- \$1,650 of private airline club memberships
- \$810 of ATM cash advances
- \$10,595 of private nursing services
- \$14,645 of educational and language courses

Additionally, FHS could not account for 13 inventoriable pieces of office equipment valued at \$16,163. OIG auditors observed 34 pieces of office equipment located in FHS offices during our physical inventory that we could not find in FHS purchasing or inventory records. We noted that poor FHS procurement planning resulted in over \$80,000 of questionable equipment purchases.

OIG auditors evaluated the transfer of funds from FHS to JMF (its parent organization) to pay for "central services" (i.e., executive, human resources, communications, and finance services) that are provided by JMF employees. For fiscal year 2010, JMF claims that ten of its employees will spend some part of their time performing FHS-related work at a cost of \$472,718. OIG auditors have concluded that the central services cost allocation methodology lacks authoritative support.

Underlying these findings, we observed that the PHT has not been proactive in taking any actions to ensure that the public funds that it dispenses to FHS are being spent properly and in accordance with good public expenditure policy, as evidenced by the questioned costs shown in this report. In addition, we note the FHS' *Statements of Financial Position*, as of September 30, 2009, show that it has \$3.2 million of net assets that are "unrestricted" and are comprised mostly of \$2.2 million of "cash and cash equivalents." This net asset (cash accumulation) is a direct result of the PHT allowing FHS to bill its approved budgeted funding as lump-sum compensation (prorated over the funding year) instead of on an as-expended basis. The OIG believes that this is an atypical arrangement benefitting FHS at the PHT's expense.

**MIAMI-DADE COUNTY  
OFFICE OF THE INSPECTOR GENERAL**



**FINAL AUDIT REPORT**

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*Audit of the Management Services Agreement  
Between the Public Health Trust of Miami-Dade  
County and Foundation Health Services, Inc.*

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**IG09-98**

**October 28, 2010**

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**I. INTRODUCTION**

The Miami-Dade County Office of the Inspector General (OIG) initiated an audit of Foundation Health Services, Inc. (FHS) covering selected activities and expenditures, pursuant to its agreement with the Miami-Dade County Public Health Trust (PHT).<sup>1</sup> FHS is a not-for profit, wholly-owned affiliate of the Jackson Memorial Foundation, the charitable fund-raising arm of the PHT and Jackson Health System (JHS). FHS was founded with the encouragement of the PHT in order to manage the PHT's Jackson Memorial Hospital International Program (JMHI). Expanded concierge and hospitality services were later added to FHS' responsibilities in 2008. At present, FHS activities are funded at \$7.2 million annually for the International Program and \$2.1 million for concierge and hospitality services, pursuant to the latest PHT resolutions.

This report will be the first in a series of reports that the OIG will issue after completing follow-on audits of other FHS activities and expenditures. The OIG began this audit by completing a preliminary survey of FHS activities. Ultimately, because of financial materiality issues and observed control weaknesses, we decided to focus on FHS' credit card usage, office equipment purchases and inventory, and intra-organizational transfers for "central services charges." Later audits may include our examination of FHS' use of consultants, employee out-of-town travel and entertainment expenses, and performance reporting.

**II. TERMS USED IN THIS REPORT**

BCC	Board of County Commissioners of Miami-Dade County
FHS	Foundation Health Services, Inc.
JHS	Jackson Health System
JMF	Jackson Memorial Foundation, Inc.
JMH	Jackson Memorial Hospital
JMHI	Jackson Memorial Hospital International (the International Program)
PHT	Public Health Trust

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<sup>1</sup> The Miami-Dade County Board of County Commissioners created the PHT in 1973, as an independent body concerned with governing and operating the Jackson Health System (JHS). Chapter 25A of the Code of Miami-Dade County governs the PHT. JHS is the County-owned comprehensive health care organization consisting of Jackson Memorial Hospital, Jackson Memorial North Medical Center, Jackson South Community Hospital, and various other medical-related facilities located throughout Miami-Dade County.



### **III. RESULTS SUMMARY**

FHS operations lacked basic financial controls that led to wasteful credit card spending on unnecessary and unreasonable items and services. Ineffectual, and sometimes nonexistent, oversight and poor documentation of credit card expenditures precluded transparency and accountability of expenditures of public funds by FHS employees.

OIG auditors identified the following credit card expenditures by FHS employees that were deemed questionable:

- \$37,414 of local meals and dining
- \$6,295 for a 5-day cruise
- \$8,271 for goods and services of a personal nature
- \$7,154 for flowers, gifts, and birthday cakes
- \$12,290 of local limousine services
- \$1,650 of private airline club memberships
- \$810 of ATM cash advances
- \$10,595 of private nursing services
- \$14,645 of educational and language courses

Additionally, FHS could not account for 13 inventoriable pieces of office equipment valued at \$16,163. OIG auditors observed 34 pieces of office equipment located in FHS offices during our physical inventory that we could not find in FHS purchasing or inventory records. We also noted that poor FHS procurement planning resulted in \$56,665 of wasteful spending on incompatible telephone equipment and over \$24,000 on unneeded computers. In total, this represents \$80,000 of questionable equipment purchases.

Another expenditure category analyzed by the OIG involved the transfer of funds from FHS to JMF (its parent organization) to pay for executive management, human resources, communications, and finance services that are provided by JMF employees. Collectively, these are referred to as "central services." For fiscal year 2010, JMF claims that ten of its employees will spend some part of their time performing FHS-related work at a cost of \$472,718. OIG auditors have concluded that the central services cost allocation methodology lacks authoritative support.

Lastly, we found that FHS' control environment needs strengthening to reduce unnecessary, unreasonable, and abusive credit card charges and to improve the procurement and record keeping of equipment purchases.

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Underlying these findings, we observed that the PHT has not been proactive in taking any actions to ensure that the public funds that it dispenses to FHS are being spent properly and in accordance with good public expenditure policy, as evidenced by the questioned costs shown in this report. In addition, we note that FHS' *Statements of Financial Position*, as of September 30, 2009, show that it has \$3.2 million of net assets that are "unrestricted" and are comprised mostly of \$2.2 million of "cash and cash equivalents." This net asset (cash accumulation) is a direct result of the PHT allowing FHS to bill its approved budgeted funding as lump-sum compensation (prorated over the funding year) instead of on an as expended basis. The OIG believes that this is an atypical arrangement benefiting FHS at the PHT's expense and should cease.

#### **IV. RESPONSES TO OIG DRAFT REPORT & OIG REJOINDER**

We provided a copy of this report, as a draft, to the Chief Executive Officer (CEO) and President of FHS and to the President and CEO of JHS for their responses. Their responses are attached to this report as Appendix A and Appendix B, respectively. FHS later provided an addendum to its response that summarized its earlier comments about our report and specific findings. FHS' first response, dated October 15, 2010, is a 27-page document complete with another 26 pages of exhibits. The second response, dated October 19, 2010, is four pages long. We have included both documents in Appendix A and have excerpted statements from both in our report.

After reviewing FHS' responses, the OIG revised some of the reported amounts and/or removed some of the previously reported examples of questioned costs (Finding Nos. 1, 3, 4, 5, 7). In addition, OIG auditors made another trip to FHS facilities to observe equipment that was unrecorded (Finding No. 10) or that FHS had previously been unable to locate (Finding No. 11) but now claimed had been located. Based on this recent information, the OIG revised items and amounts of what it initially reported in these findings. Because of these revisions, some of the amounts and examples in our final report will not match FHS' response, in some areas.

FHS, in general, disagreed with our findings, primarily taking issue with the OIG's perspective and the standards that we applied when examining its operations and expenditures. FHS asserts that it is a private non-profit business and takes issue with the fact that the OIG "unfortunately chooses to analyze FHS from a public perspective, a point of view we strongly disagree with." As a result, FHS states, "the [OIG] report presents an inaccurate and sometimes distorted view of the normal business practices and outstanding achievements of the FHS." FHS described the OIG's perspective as being derived from a public

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business model and “based on total transparency of all activity and bureaucratic processes determining the use of every penny of public funds.” We agree with the FHS that this was our perspective.

FHS, in its response, consistently refers to itself as a “private non-profit business” emphasizing the word “private” at every opportunity. The OIG does not disagree that as a legal entity, FHS is classified as a private non-profit business in accordance with Florida law and the United States Tax Code. FHS, as a private entity, can spend privately acquired funds, more or less, within whatever constraints, if any, that may be imposed by the source of said funds and within the mission of the non-profit. FHS, however, cannot spend public funds, as if they are private funds. Public funds do not lose their identity or character as public funds when they are transferred from a government entity to a private entity when they are, as here, transferred as part of a management services agreement.

The transfer of budgeted funds from the PHT to FHS is made pursuant to a Management Agreement whereby FHS performs a function on behalf of the PHT. That function is to “serve as the Manager for JMH International (JMHI), a program of the PHT and through Manager’s Foundation Hospitality Services program, to provide non-patient care, support ‘hospitality’ services for a fee to domestic and international private patients who are hospitalized at JMH.”<sup>2</sup>

Specifically regarding our characterization of the funds as being public funds, FHS asserts that the OIG has misconstrued the proper holder and, thus, character of the funds. FHS explains that “[it] is a business and the fund holder once disbursement from JHS has occurred.” FHS apparently means that once it receives the funds, it can use the funds as a private business. But this position is inconsistent with an earlier FHS statement and is inconsistent with language in the actual Agreement itself. Earlier in its response, FHS states:

Let’s be crystal clear: the FHS budget analyzed in the OIG report was developed in conjunction with JHS management, based on the goals assigned by JHS management and the PHT. This is JHS’ budget, assigned to FHS to carry out its mission. (Emphasis in FHS’ response.)

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<sup>2</sup> While the Agreement calls for FHS to develop and prepare a “menu of hospitality services that shall be offered for a fee...” no fee schedule has ever been implemented. Hospitality and concierge services provided by FHS are funded by the PHT at no cost to the patient.

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This statement serves to confirm that the funds, once transferred to FHS, do not lose its public quality. In fact, the funds never become FHS' money; the funds are merely assigned to FHS to carry out the mission on the PHT's behalf.

Furthermore, compensation provisions in the Management Agreement support our perspective. Article 5.1 *Compensation* confirms that funding is in the form of an annual operations budget. Article 5.2 *Reimbursement* further confirms that the annual operating budget is inclusive of all reimbursements. The monies that FHS spends to carry out the mission are not FHS funds—they are JHS funds assigned to FHS.<sup>3</sup>

Lastly, with regard to the public/private perspective, FHS complains that the OIG's audit was "based on public government auditing standards retrospectively applied to a private, not-for-profit enterprise." We emphasize that FHS is 100% funded by public monies and that it is entirely appropriate, if not mandatory in similar cases, to use government auditing standards. FHS states, "If indeed, FHS is to be held to entirely public standards for expenditures, then all parties involved must evaluate the reason for FHS' existence and/or the processes to be used in the future operation of the business." The OIG wholeheartedly endorses this FHS suggestion.

FHS, in its response, explains that it has undergone leadership changes during its first three years and that "it is important to document the negative impact those changes had on the concerns noted in the report." FHS asserts that its first Chief Operating Officer (COO), who served from inception through March 2008, and a second individual, who performed essentially the same role as an Executive Vice President, who served from November 2008 through September 2009, separated from their employment with FHS because of performance issues.

Throughout its response, FHS often points its finger at one of these two individuals as being responsible for the problematic conditions and questioned costs. These two individuals, according to FHS, were responsible for FHS' day-to-day operations. In its response, FHS adds, "the JMF CEO [Rolando Rodriguez] was not assigned to oversee company operations, nor was he involved in any direct oversight of daily business decisions." According to the response, Mr. Rodriguez was only assigned a "consulting role" by JMF to

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<sup>3</sup> We acknowledge that the Agreement's introductory *Statement of Purpose* provides that: "FHS transfers any of its surplus funds to JMF to further its charitable mission of soliciting funds to support the activities of the PHT." We, however, find this statement to be entirely inconsistent with the specific budgetary funding provisions of this agreement. While no transfers to JMF have been made, the OIG recommends that the approximate \$2 million surplus held by FHS be returned to the PHT. See OIG discussion on page 53 and recommendation on page 55.

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oversee FHS' evolution and, thus, he was not "involved in supervising direct expenditures by FHS." Further, only in December 2009, did the FHS Board, with the consent of the JMF Board, request that Mr. Rodriguez serve as Interim Director of FHS.

The OIG finds this explanation unpalatable. Mr. Rodriguez is the one senior FHS officer who has been with FHS throughout its existence. He signed the original Management Agreement (October 2006) and the First Amendment (January 2008), as the FHS CEO. He has been using an FHS issued credit card throughout FHS' existence. In fact, it is under his name and credit that FHS obtains its American Express credit cards (a practice still in place today). In addition, in various documents and especially for the monthly credit card payment authorizations, we observed that Mr. Rodriguez is consistently signing off as the FHS' President and CEO.<sup>4</sup> To say that he has been the "Interim Director" since December 2009 is perplexing. FHS Board minutes since 2006 show Mr. Rodriguez as an *ex officio* member of the Board; the minutes also list him under the staff category as "CEO." Moreover, in recent correspondence to the BCC, Mr. Rodriguez signs as "President & CEO" to both JMF and FHS. The OIG has not seen the title of "Interim Director" used on any correspondence after December 2009.

The OIG believes that this title interchange is misleading because it implies a change in responsibilities and shifts accountability. The fact remains that the current JMF CEO has also been the FHS CEO during FHS' entire existence. We believe that different office titles do not change the fact that this individual has been the organization's Chief Executive Officer primarily responsible for FHS since its inception and who, accordingly, is the one most accountable for its performance and the conditions described in this report.

Lastly, we would like to point out that FHS, in its response, consistently dismisses the importance of having authoritative support for its credit card expenditures, in particular those for dining and entertainment purposes. The OIG believes that an itemized receipt listing food and drink items, attendees, and a business purpose or event explanation is a reasonable standard to apply when evaluating expenditures of public funds. Not only is it a reasonable standard, it is required under both JMF's and FHS' policies and procedures for credit card usage.<sup>5</sup> The two entities' procedures, which are practically identical, both state:

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<sup>4</sup> Of the 70 monthly credit card statement pay authorizations observed by OIG auditors, 37 were either authorized by or co-authorized by Mr. Rodriguez. Of these statements, 100% of the Northern Trust Visa Statements were co-authorized by Mr. Rodriguez.

<sup>5</sup> Prior to adoption of its own Policies and Procedures, FHS used those of JMF.

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Attach all original receipts to their monthly statement. Itemized receipts are **required** for all purchases. **NO EXCEPTION.**  
(Emphasis in original.)

Moreover, as it specifically related to meals, which is only addressed in the business travel policy, both JMF's and FHS' procedures require that:

Receipts should describe who attended and the business purpose. This information can be written on the back of the receipt itself or on the expense report. . . . All expenses must be accompanied by a receipt and supporting documentation. All items should be clearly justified as to purpose of travel or meeting, individuals present at the meeting, and the outcome.

For FHS to assert that its employees need only provide a credit card receipt (as opposed to an itemized receipt) is inconsistent with its own stated procedures. FHS also asserts its "business practices have not previously required detailed explanations on receipts, as these explanations can easily be inferred from the attendees." OIG findings indicate that often such receipts do not show attendees, thus precluding any explanation. Moreover, regarding the lack of a noted explanation, FHS adds that while an explanation may not have been sufficiently documented by staff, it was nevertheless judged to be perfectly appropriate by FHS management. The OIG believes this to be an unacceptable practice when spending public funds. Even the best auditors—government or private—cannot examine, observe, or verify undocumented management judgments.

JHS provided a one-page response expressing its support for its International Program and its "desire to continue to pursue the international market share." JHS states that its "protocols demand transparency, especially when dispensing publicly funded dollars." JHS continues, "As part of our continuous improvement initiatives, we are currently evaluating various business models in an effort to best define our future direction." JHS lists four of the various initiatives that it is considering, including new leadership options, and public/private partnerships with the University of Miami School of Medicine and the Florida International University College of Medicine. In closing, JHS states, "We will await your final report and provide additional information regarding our progress on these endeavors upon receipt."

The OIG is encouraged by JHS' response but is nevertheless mindful of JHS' responsibilities to both address problematic conditions that exist at FHS and to provide oversight of FHS' use of public funds that it receives.

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OIG rejoinders to the FHS finding-specific responses, including summarized excerpts from its responses, are located in the body of the report at the end of the related finding.

## **V. OIG JURISDICTIONAL AUTHORITY**

In accordance with Section 2-1076 of the Code of Miami-Dade County, the Inspector General has the authority to make investigations of County affairs and the power to review past, present and proposed County and Public Health Trust programs, accounts, records, contracts, and transactions. The Inspector General is authorized to conduct any reviews, audits, inspections, investigations, or analyses relating to departments, offices, boards, activities, programs, and agencies of the County and the Public Health Trust. OIG activities may be predicated on citizen complaints. The Inspector General may also exercise any of the powers contained in Section 2-1076, upon his or her own initiative.

The Inspector General shall have the power to require reports from the Mayor, County Commissioners, County Manager, County agencies and instrumentalities, County officers, and employees, and the Public Health Trust and its officers and employees, regarding any matter within the jurisdiction of the Inspector General. The Inspector General shall also have the power to report and make recommendations to the Board of County Commissioners regarding the necessity of projects, contracts, and programs and whether they are fiscally and operationally efficient.

## **VI. BACKGROUND—FOUNDATION HEALTH SERVICES (FHS)**

### ***Organizational History***

FHS is an IRS 501(c)(3) tax-exempt organization and is a wholly-owned affiliate of the Jackson Memorial Foundation (JMF).<sup>6</sup> The purpose for which FHS is organized, as stated in its Articles of Incorporation, is “[t]o be operated only on behalf of Jackson Memorial Foundation, Inc. and Jackson Memorial Hospital, both publicly supported organizations, and not to operate to support or benefit any organization other than these two organizations.”

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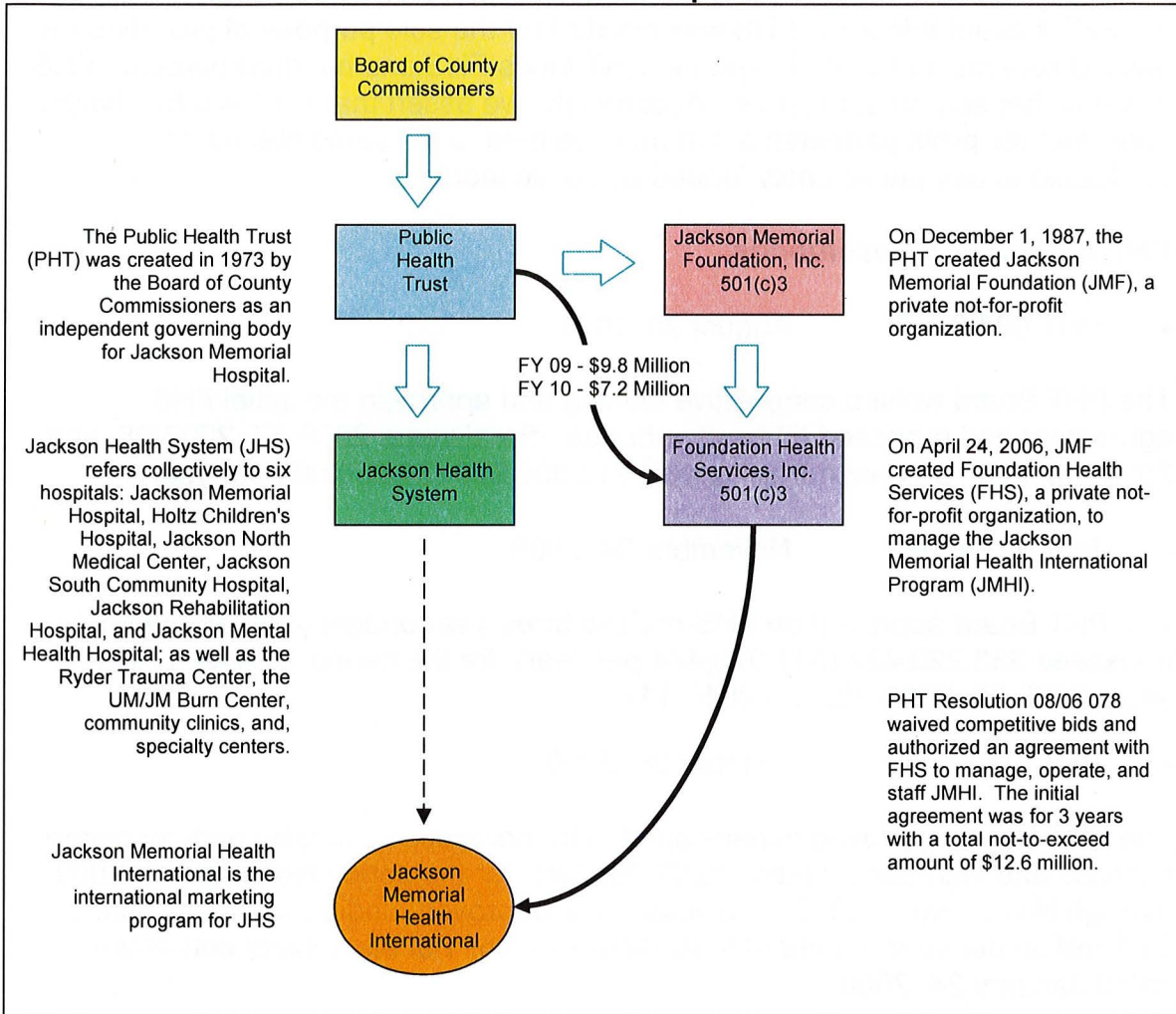
<sup>6</sup> JMF, like FHS, is an IRS 501(c)(3) tax-exempt organization located in Miami-Dade County, Florida. JMF was created in 1987 and is a separate and independent entity from the PHT. JMF’s mission is to solicit funds and other assets from individuals, firms, foundations, corporations, other entities, governmental bodies, and all segments of the general public to support the PHT. JMF serves as the principal source of private fundraising for the PHT/JHS.



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FHS was founded with the encouragement of the PHT. It organizationally exists to service the PHT/JHS through the *Management and Services Agreement by and Between the Public Health Trust of Miami-Dade County, Florida and Foundation Health Services, Inc.*, dated October 1, 2006 (as amended January 2008). The Agreement calls for FHS to market the JHS in the international healthcare arena and to provide hospitality concierge services to all domestic and international paying patients that are hospitalized at, or are outpatients of, JHS facilities.

**Table 1 PHT /JHS and JMF/FHS Relationships**



FHS has no other purpose, function, clients, or revenue sources other than those associated with the subject Management Agreement. FHS operations are 100% funded by the payment of public monies from the PHT.



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In addition, it is important to note that this agreement was the result of a non-competitive procurement because the PHT Board, in approving this agreement, waived competitive bidding requirements. No other entities or organizations were considered. Because of the PHT bid waiver, FHS was not required to submit a competitive bid but, instead, presented a proposed budget. This budget was a forecast of what FHS believed would be its costs to perform the desired services on behalf of the PHT/JHS.

We reiterate that FHS is a not-for-profit, wholly-owned affiliate of JMF—the PHT’s charitable arm. FHS was created for the sole purpose of providing the desired services to the PHT, and the PHT funds FHS one hundred percent. FHS has no other source of revenue. Accordingly, we assert that FHS is a functioning public/not-for-profit partnership that must be held to the same standards applicable to any public entity funded by public monies.

***PHT Authorizing Resolutions***

- PHT 08/06-078            August 28, 2006

The PHT Board waived competitive bidding and approved the initial FHS agreement and proposed three-year budget (fiscal years 2006-07, 2007-08, and 2008-09), in an amount not-to-exceed \$12,600,000 (\$4,200,000 per year).

- PHT 11/08-082            November 24, 2008

The PHT Board approved an FHS-revised three-year budget in an amount not-to-exceed \$33,220,422 (\$11,073,474 per year), for the period 2009-2011 (fiscal years 2008-09, 2009-10, and 2010-11).

- PHT 10/09-088            October 26, 2009

The PHT Board approved expansion of FHS’ domestic hospitality and concierge services and increased funding to \$2,063,381, for the period November 1, 2009 through November 1, 2010. Previously, the approved funding was established at \$1.1 million per year, pursuant to Amendment No. 1 of the subject agreement, dated January 24, 2008.<sup>7</sup>

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<sup>7</sup> The OIG has not been able to locate any PHT Resolution authorizing Amendment 1. Amendment 1 establishes funding in the amount of \$1.1 million and provides \$100,000 for FHS administrative overhead. For calendar year 2008, FHS wages paid to concierge and hospitality service employees totaled \$795,884; for calendar year 2009, FHS paid these employees \$986,373; and for calendar year 2010, FHS estimated wage costs are \$1,216,770.

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- PHT 10/09-089      October 26, 2009

The PHT Board approved extension of FHS' 2008-09 budgeted funding level of \$9,755,422 per year through December 2009, pending approval of an increased funding level to \$11,250,000 for the remaining portion of the three-year period approved in PHT 11/08-082 (January 1, 2010 through September 30, 2011).

- PHT 08/10-042      August 23, 2010

The PHT Board approved FHS' 2009-10 budgeted funding level of \$7,200,000 for the period October 1, 2009 through September 30, 2010.

***FHS Funding & Expenditures***

Between October 2006 and December 2009, FHS received \$18,143,957 in public monies from the PHT, representing over 99% of all of its revenues. FHS earned \$141,242 in additional income during the same period, consisting of \$66,711 in interest income, \$5,790 in unidentified other income, and \$68,741 from one medical conference that it sponsored in December 2008.<sup>8</sup>

**Table 2      FHS Funding Sources FY2007 - FY2009**

<b>Fiscal Year</b>	<b>PHT Funds</b>	<b>Other Funds</b>	<b>Total</b>	<b>PHT %</b>
2006-07	\$3,747,493	\$23,321	\$3,770,814	99.38%
2007-08	\$4,641,042	\$32,927	\$4,673,969	99.29%
2008-09	\$9,755,422	\$84,994	\$9,840,416	99.13%
<b>Total</b>	<b>\$18,143,957</b>	<b>\$141,242</b>	<b>\$18,285,199</b>	<b>99.22%</b>

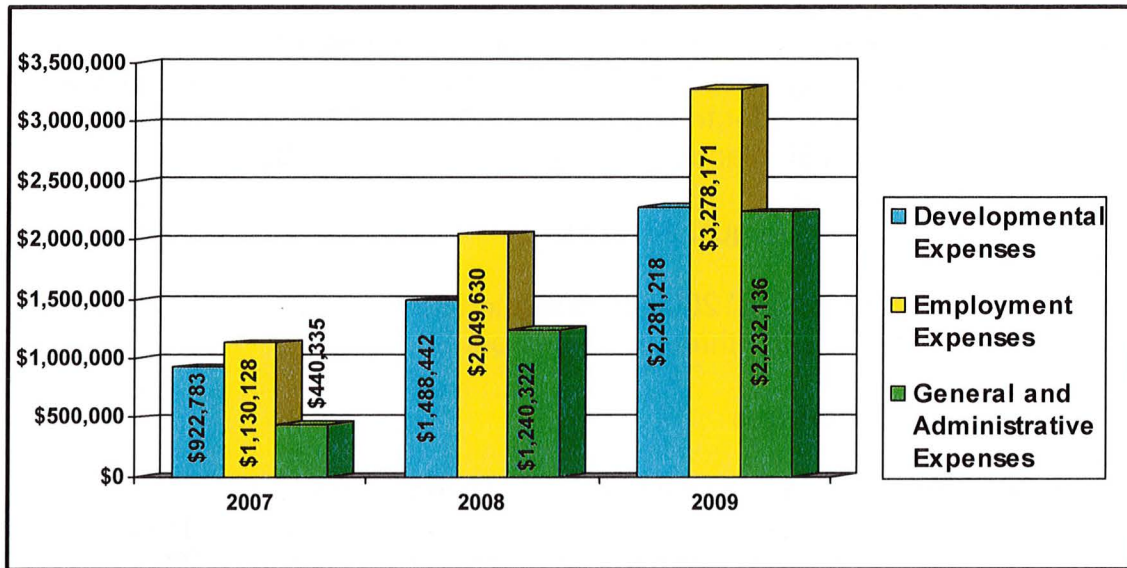
Concurrent with its increased funding, FHS expenditures have also steadily increased over this same period, from approximately \$2.5 million in FY2007, to \$4.8 million in FY2008, and \$7.8 million in FY2009, as depicted in Table 3.

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<sup>8</sup> FHS' financial statements, for the year ending September 30, 2009, show revenues of \$68,741 from a medical conference. FHS employee credit card expenditures for this event total \$105,645, or \$36,904 over the amount collected to sponsor this event. FHS expenditures consisted of \$39,950 for a banquet at Bongos Café (including a \$9,000 bar bill); \$44,674 at the Intercontinental Hotel Miami for conference presentation space and banquets; and \$21,022 at the Hyatt Regency for attendee rooms (including 13 no show room charges of \$2,189) and food. FHS employee credit card expenditures related to this conference show that they spent public funds on food, drinks, and hotel room bills for themselves, as well as for conference attendees.

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**Table 3 FHS Expenditures Fiscal Years 2007 - 2009**



**Source:** Foundation Health Services, Inc. Financial Statements for fiscal years ending September 30, 2007, 2008, and 2009, *Schedule of Functional Expenses*

**Developmental Expenses** consist of guest relations, international insurance, consulting, marketing, advertising, public relations, and other.

**Employment Expenses** consist of salaries, wages, payroll taxes, and benefits.

**General and Administrative Expenses** consist of auto, administrative, contract administrative services, audit fees, professional services, insurance, postage, courier fees, occupancy, travel, depreciation, telecommunications, office, and other.

In order to obtain its funding, FHS submits a payment request to the PHT representing a pro-rata amount of FHS' current authorized annual funding. No details (such as payroll, consultant, travel expenses, etc.) are listed on the payment requisition. Through September 2010, FHS has received \$4,733,275 from PHT for services performed between October 2009 and February 2010. FHS has invoiced the PHT for \$4,658,157 for services performed between March 2010 and September 2010, but has not yet received payment.

**Staffing/Central Services**

As of June 3, 2010, FHS staff consisted of 60 individuals—18 working in administration, 8 working in international marketing, and 34 working in hospitality patient relations. FHS also has hired at least two contract employees to act as medical directors, as well as a number of consultants to provide various services, such as advertising; marketing; staff training and development; analytical



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reviews; and to act as “medical ambassadors” throughout the Caribbean and Central America. These medical ambassadors typically live and work outside of the continental United States.

Additionally, FHS pays JMF to provide it with executive management, human resources, communications, and finance services that are provided by JMF employees. Collectively, these are referred to as “central services.” For fiscal year 2010, FHS’ total central services costs (i.e., its pro-rata share of JMF’s payroll costs, as well as a share of its rent, utilities, etc.) is estimated to be \$472,718. For the fiscal year, JMF claims that ten of its employees will spend some part of their time performing FHS-related work:

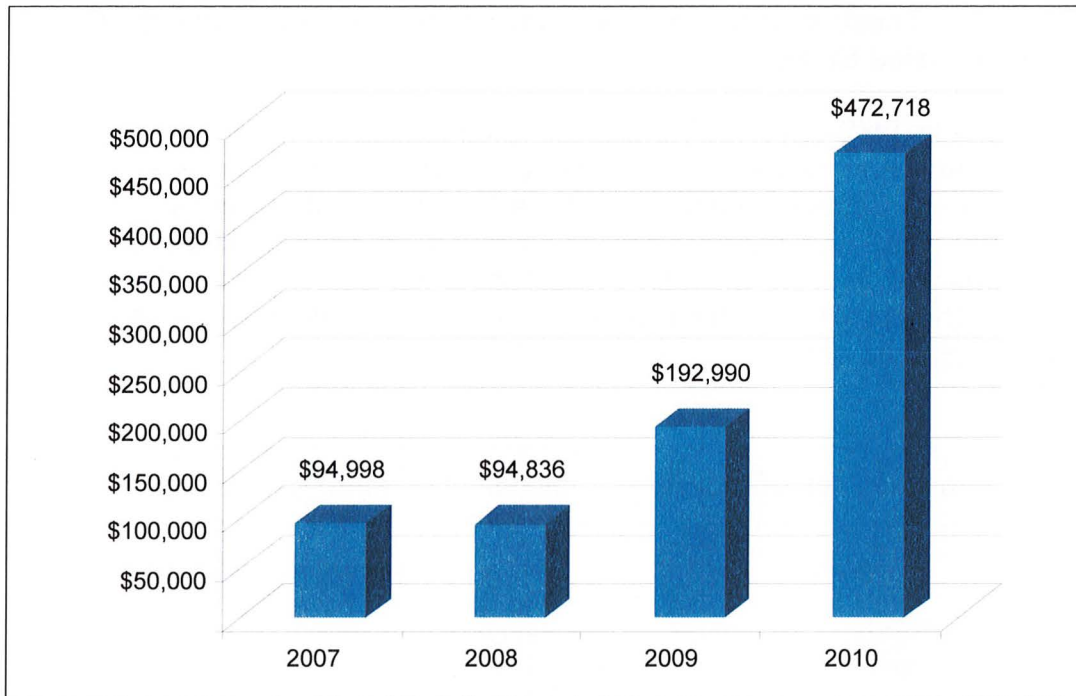
<b>Table 4: Percentage of JMF Employee Time Spent Performing FHS-related Work</b>			
<b>EXECUTIVE</b>		<b>HUMAN RESOURCES</b>	
1) President/CEO <sup>9</sup>	50%	3) Director	65%
2) Executive Assistant	50%	4) Manager	65%
<b>FINANCE</b>		<b>COMMUNICATIONS</b>	
5) Managing Director	29%	10) Director	15%
6) Full Charge Bookkeeper	29%		
7) Accounts Payable Supervisor	29%		
8) Accounts Receivable Mgr.	29%		
9) Purchasing/Tech Support Asst.	29%		

We note that FHS’ central services cost has steadily increased over the past four years, from \$94,998 in FY2007 to an estimated \$472,718 in FY2010, as depicted in Table 5.

<sup>9</sup> We note that Rolando Rodriguez has been President and CEO of JMF since the inception of FHS (in 2006). In addition, Mr. Rodriguez has also held the same title for FHS during this period. For the year ending December 31, 2009, Mr. Rodriguez received \$260,225 in W-2 reported wage earnings from JMF, and \$72,500 in 1099 reported consulting fees and bonus from FHS (comprised of a \$52,500 consulting fee and a \$20,000 bonus). In total, from both JMF and FHS, Mr. Rodriguez received \$332,725 in 2009. Mr. Rodriguez does not directly receive a salary from FHS as its President/CEO. Under an informal arrangement, for fiscal year 2010, FHS agreed to pay JMF for 50% of Mr. Rodriguez’s annual salary, which FHS estimates will be \$141,169 for the fiscal year (which represents about 30% of FHS’ central services charges payable to JMF). On its own, FHS is planning again to pay Mr. Rodriguez a consulting fee of \$52,500 plus a bonus of \$20,000. In total, Mr. Rodriguez’s FHS-related income is estimated to be \$233,669 for the fiscal year ending September 30, 2010.

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**Table 5 FHS Central Services Cost FY2007 - FY2010**



\* Source: JMF invoices to FHS for central services costs

In addition, the amounts listed below (Table 6) are FHS payments made directly to JMF personnel for consulting fees<sup>10</sup> and bonuses that are over and above the central services costs shown above.

**Table 6 FHS Direct Payments to JMF Employees**

	CY2007	CY2008	CY2009	Total
President/CEO	\$58,654	\$41,971	\$72,500	\$173,125
Finance Director	\$20,000	\$10,000	\$ -0-	\$30,000
<b>Total</b>	<b>\$78,654</b>	<b>\$51,971</b>	<b>\$72,500</b>	<b>\$203,125</b>

\*Source: FHS-issued W-2 and 1099 statements

<sup>10</sup> Mr. Rodriguez is directly compensated by FHS as an independent contractor pursuant to his consulting agreement, which became effective on October 1, 2008 and runs through September 30, 2010. According to the terms of the agreement, Mr. Rodriguez receives a monthly compensation of \$4,375 for his services, or \$52,500 per year. The agreement further provides for Mr. Rodriguez to be paid "discretionary performance bonuses."

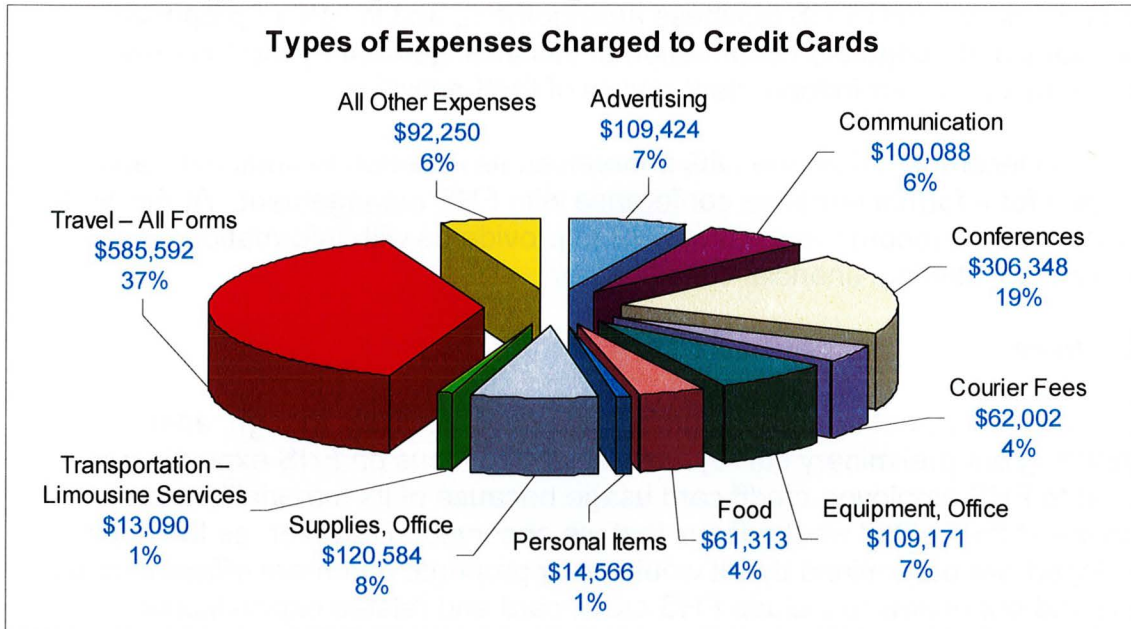
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**FHS Credit Cards**

FHS employees have charged \$1,574,429, as depicted in Table 7 below, to three different credit accounts from November 2006 through February 2010:

- American Express<sup>11</sup>—5 cards; total charges of \$1,128,672
- Northern Trust Visa—13 cards; total charges of \$411,482
- Chase Bank Visa—2 cards; total charges of \$34,275

**Table 7 Types of Expenses Charged to Credit Cards**



The American Express (active since November 2006) and the Northern Trust Visa (active since May 2008) accounts are currently in use; the Chase Bank Visa account was used between May 2007 and December 2008. Additionally, we note that FHS has allowed some of its employees to hold more than one FHS-issued card at a time. Currently, six FHS employees, two JMF employees (central services), and one medical director (contract employee) hold FHS-issued credit cards with authorized credit limits ranging from \$5,000 to \$50,000 per card.

<sup>11</sup> Of note, Rolando Rodriguez, in his individual capacity, opened the FHS American Express credit card account, and additional cards were later issued under the main account. Likewise, Zully Ford (JMF Managing Director, Finance), in her individual capacity, opened the FHS Chase Bank Visa credit card, and additional cards were later issued under the main account number. While the accounts may have been opened by Mr. Rodriguez and Ms. Ford, respectively, both accounts are corporate business accounts in the name of Foundation Health Services.

## **VII. OBJECTIVES, SCOPE, AND METHODOLOGY**

As part of the OIG's on going oversight of the PHT/JHS, we became aware of complaints alleging various problematic conditions within FHS. The OIG also received information from a disclosed whistleblower regarding the individual's observations that inappropriate activities were taking place within FHS. In addition, local media were reporting on FHS activities. This reporting included a televised report, which was aired on December 20, 2009, regarding FHS' alleged manipulation of numbers regarding the number of international patients receiving medical services at JHS facilities. After conducting some research into the PHT/FHS business arrangement, and in light of proposed extensions and budgetary continuation of this arrangement by the PHT, we decided to initiate our independent review of FHS activities.

In December 2009, the OIG announced its intention to audit FHS and arranged for a formal entrance conference with FHS management. At this time, we also made a records request of FHS to provide us with information on its organization, staffing, financial condition, etc.

### ***Objectives***

We initially established a number of audit objectives; though, after completing our preliminary survey, we decided to focus on FHS expenditures related to FHS employee credit card usage because of its materiality and because of the control weaknesses that we observed. However, as the audit developed, we determined that it would be appropriate and more efficient for us to expand our review to include FHS credit card and related expenditures associated with office equipment procurements and its inventory record keeping, as well as its central services charges.

Accordingly, our objectives were to determine the effectiveness of FHS internal controls intended to minimize misuse and wasteful spending by those employees using FHS-issued credit cards, and to prescribe requirements related to FHS' procurement and accounting for office equipment. In addition, we were to identify specific examples of transactions that reflect questioned costs.

### ***Scope***

The scope of this audit encompasses all of FHS' activities and controls, as related to our audit objectives, that were in place since FHS' inception in October 2006 through February 2010. Additionally, special attention was placed on reviewing 100% of all expenditures made on FHS credit cards during the period

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November 2006 to February 2010, and whether the expenditures complied with FHS Policy No. 808, *Credit Cards Policy*, dated June 12, 2009, and Policy No. 809, *Business Travel*, dated December 1, 2008. During the audit period, FHS employees charged \$1,574,429 to their FHS credit cards. When necessary, we reviewed data and events occurring outside of our audit period.

***Methodology***

To accomplish our objectives, we obtained an understanding of the internal controls used by FHS to ensure the propriety of its expenditures and to protect assets purchased using public funds. In order to obtain this understanding, we interviewed FHS and JMF personnel. Additionally, we performed a walk-through of relevant processes and evaluated the effectiveness of internal controls through examination of supporting documentation and records, as well as by observation.

We reviewed 100% of all credit card transactions from the inception of FHS' credit card program, which began in November 2006 through February 2010. There were 3,114 transactions amounting to \$1,574,429. We obtained from FHS all original credit card statements, as well as all documentation submitted by credit card users justifying their expenditures. We categorized each individual credit card transaction according to the nature of the expense, in order to quantify credit card expenditures by different expenditure categories.

We reviewed FHS policies and procedures related to credit card usage and business travel, as well as JMF credit card policies, which we were told were used by FHS prior to June 12, 2009. Additionally, we interviewed FHS employees to gain an understanding of the processes used by FHS to implement these procedures.

***Objectives, Scope, and Methodology Related to Office Equipment Procurements and Record Keeping***

OIG auditors reviewed FHS' inventory controls regarding its procurement and record keeping of its office equipment. The review focused on whether FHS complied with its policies and procedures, including Policy No. 802a, *Purchasing Controls: Determination of Needs*, dated June 12, 2009; Policy No. 802b, *Purchasing Controls: Placement of Orders*, dated June 12, 2009; Policy No. 806a, *Property & Equipment: Acquisitions*, dated June 12, 2009; and Policy No. 806b, *Property & Equipment: Disposal*, dated June 12, 2009. Specific objectives were:



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- To evaluate the adequacy of inventory controls related to the procurement of equipment;
- To determine whether the inventories of equipment are effectively maintained; and
- To determine whether all purchased equipment exists.

The scope of this portion of our review covered FHS' inception (October 2006) through December 2009, and selected subsequent transactions.

In light of the fact that FHS does not maintain inventory records, OIG auditors prepared a schedule documenting property and equipment purchases based on the following source documents:

- American Express credit card transactions;
- VISA credit card transactions;
- Check register transactions; and
- Tax Asset Detail report prepared by FHS' certified public accounting (CPA) firm that prepares its annual financial statements and IRS tax filings.

We conducted a physical inventory to ascertain whether all property and equipment items purchased were present at FHS locations or whether sufficient documentation existed to document the items disposal or absence. FHS has office equipment at the following locations:

- FHS Main Office – 1500 NW 12 Avenue, 8th Floor
- FHS Hospitality and Accounting – 901 NW 17 Street, Suites S and T
- FHS BUPA<sup>12</sup> – 1611 NW 12 Avenue, JMH West Wing, First Floor

For mobile equipment (e.g., laptop computers) we asked FHS management to locate the items and have them brought to its office for our inspection. In addition, we gave them our listing of unlocated items, giving them an opportunity to find them.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>12</sup> The BUPA Center facilities were funded by a private donation received from the British United Provident Association (BUPA) to JMF for the purpose of providing hospitality and concierge services to enhance a patient's stay at Jackson Memorial Hospital.

## VIII. FINDINGS AND RECOMMENDATIONS

**Finding No. 1      Credit card charges totaling \$37,414 were spent on questionable local meals and dining.**

Our examination revealed 410 transactions totaling \$47,697 for local meals, in-house catering, and staff dining expenses. These expenses were all incurred in the Miami-Dade and Broward County areas, and none were associated with out-of-town travel. Of the 410 transactions analyzed, the OIG questioned 343 (84%) of them, totaling \$37,414 (78%).

The 67 transactions that were not questioned were both supported with an itemized receipt (as required by FHS *Credit Cards Policy* No. 808) or, in lieu of a receipt, a *Missing Receipt Declaration*, and supported by a statement of who attended the meal and the business purpose of the meal.

OIG auditors did not accept cursory statements of purposes, such as "Business Dinner," "Discuss Business Operations," "Lunch With Guests," or "Physicians Relations." Cursory statements were not accepted even when individuals who attended the meal were identified and it was determined that all the diners were compensated by FHS either as employees, contract employees or paid consultants. Since these individuals were already compensated by FHS, it makes no sense that the public should be buying their meals, too. Likewise, staff events—such as staff welcomes and farewells or employee birthdays and holiday gatherings—were also questioned by the OIG. Lastly, any meal marked as "discretionary spending" was questioned.

FHS did not have its own credit card policy until June 2009. Prior to this, FHS personnel told OIG auditors that they followed JMF's *American Express Credit Card Policy & Procedures* (dated February 4, 2005). The FHS policy is virtually identical to the JMF policy. However, neither policy addresses local dining expenses or meals. Only FHS Policy No. 809, *Business Travel* contains a section on meals and reimbursement while traveling. In relevant part, it states:

- Receipts should describe who attended and the business purpose
- Detachable tabs from dinner checks are not considered valid receipts and will not be accepted. A register receipt or a copy of the dinner check must be submitted
- Alcohol is considered a non-reimbursable expense, except when entertaining clients

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In summary, Table 8 shows our identified questioned costs broken down into the following categories:

**Table 8 Breakdown of Questioned Costs—Local Dining Charges**

Questioned Cost Criteria	Number of Transactions	Questioned Costs by Criteria
No itemized receipt and no explanation	117	\$10,495
No itemized receipt with explanation but the explanation does not adequately describe who attended and the business purpose. Dining events among FHS employees, consultants, and contractors were disallowed.	67	\$7,182
Itemized receipt but without explanation	61	\$5,105
Itemized receipt but identified individuals are all compensated by FHS as an employee, consultant, or independent contractor or where noted business purpose is related to a staff event	60	\$9,636
Itemized receipt but insufficient explanation, i.e., "business dinner" or "business development" without listing guest parties and purpose of the business meal	29	\$4,266
Supplied notation of "personal" or "discretionary" regardless of whether a receipt was submitted	9	\$730
<b>Total</b>	<b>343</b>	<b>\$37,414</b>

Aside from the total number of transactions and total amount of the questioned costs, it was the characteristics of individual questionable transactions that caught our attention. Observed abuses ranged from individuals blatantly buying their own meals at fast food establishments to lavish meals at some of Miami's finest restaurants, all at the public's expense. In between, we found thousands of dollars spent on staff meals and social events. Examples covering the range of these abuses follow:

- An FHS employee who lives in Hialeah used the FHS credit card at various fast food establishments in Hialeah. This employee purchased food at a Hialeah Arby's for \$6.51, \$13.67, and \$13.67 on different occasions. One of these purchases took place on a Saturday. Additionally, this employee spent public monies at a Hialeah Wendy's for \$13.88, a Hialeah Dunkin Donuts for \$8.80, and a Hialeah McDonalds for \$9.95. Not surprisingly, no receipts were submitted. Two other food purchases in Hialeah (Pollo Tropical for \$42.41 and Boston Market for \$47.26) both took place on a Friday around noon.

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- There were 44 purchases at Au Bon Pain. The OIG questioned 37 of these transactions amounting to \$2,283.23. On 26 occasions, no reason was given for the expense. For the 11 purchases where a justification was supplied, it stated that the food was for a staff meeting, staff breakfast, employee birthday, Christmas gift exchange, or lunch with a JHS employee. The remaining 11 questioned transactions identify FHS-compensated employees, consultants, and contractors as the ones consuming the food.
  
- Two dining expenses, albeit supported by itemized receipts and written business purposes, had to be declared questionable by the OIG because they were clearly unreasonable. In these two instances, the former FHS Executive VP and Managing Director ate at Archie's Pizza, located on Key Biscayne. The first occurrence was on Saturday, the 4<sup>th</sup> of July. The charged expense totaled \$61.55 and included alcoholic beverages. The supplied business purpose stated "Dinner with interior designer. Office Refurbishment." The following Saturday, on July 11<sup>th</sup>, the same individual ate again at Archie's Pizza. The total was \$49.15 and again included alcoholic beverages. The supplied business purpose was the same. The OIG remarks that even if this individual was dining with the office interior designer on a national holiday or a Saturday, the public should not have to pay for it.
  
- Meals where there was neither a submitted itemized receipt nor a statement of purpose include:
  - Capital Grille for \$342.15 on February 7, 2007
  - Capital Grill for \$634.73 on February 8, 2007 (the next day)
  - Morton's of Miami for \$459 on February 19, 2007
  - Porcoa Churrascaria for \$825 on April 13, 2007
  - Indigo Restaurant for \$706.91 on December 12, 2007
  - Nordstrom's Café for \$61.34 on August 15, 2008
  - Baires Grill for \$116.08 on September 16, 2008
  - Los Tres Amigos Mexican Grill for \$175.00 on June 25, 2009
  - Caffè Abbracci for \$191.62 on August 24, 2009
  - World Resources Café for \$97.02 on Saturday, September 26, 2009
  - Sra Martinez for \$154.24 on October 2, 2009

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- Examples of meals supported by an itemized receipt but without a valid business justification include:
  - Porcoa Churrascaria for \$580.57 on March 13, 2007 (no stated purpose)
  - Morton's of Miami for \$198.42 on July 24, 2007 (no stated purpose)
  - Bernie's Steakhouse for \$232.27 on August 4, 2007, where the business purpose only says "JMHI Business Dinner" with no additional information
  - Prime Blue Grill for \$499.04 on March 24, 2008 (the written notation stated "FHS Physician Advisory Board"; no other purpose for the dinner was stated; \$123 was for alcoholic beverages)
  - Billy's Stone Crab in Hollywood, FL for \$209.87 on April 3, 2009 (no stated purpose; the itemized receipt shows that this was a dinner for two, \$21 of the bill was for alcoholic beverages)
  - Perricone's for \$133.24 on June 17, 2009 (no stated purpose; \$42.90 of the bill was for alcoholic beverages)
  - Michael's Genuine Food & Drink for \$342.28 on July 2, 2009 (no stated purpose)
  
- Other meals attended by no one other than FHS employees, FHS consultants, or FHS contract employees include:
  - Joe's Stone Crab for \$208.49 on February 18, 2009, where the diners were two FHS executives and two FHS-compensated physicians who serve as FHS Medical Directors. The stated purpose was "Business Dinner Re: Operations."
  - Oceanaire Seafood Room for \$423.61, on February 4, 2008, where the diners were FHS executives and a consultant physician from Costa Rica compensated by FHS on a monthly basis.
  - Perricone's for \$167.29 on May 1, 2008, where the diners were three FHS employees and a paid FHS consultant.
  - IL Gabbliano Restaurant for \$209.43, on April 21, 2008, where the diners were two FHS executives and one of the FHS Medical Directors.
  - Oceanaire Seafood Room for \$77.23 (bar bill) and \$298.55 (dinner bill, which also includes a \$29 bottle of La Crema 375 wine) on April 20, 2009, where the four diners were two FHS executives and both FHS Medical Directors. The stated purpose of this dinner was "FHS Future Business Opps" (see Exhibit A).

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**OIG Exhibit A**

**Dinner Receipts from**  
**The Oceanaire, 900 South Miami Avenue, Miami, FL**

**THE OCEANAIRE**  
*Seafood Room*

900 South Miami Avenue  
Suite 111  
Miami, FL 33130  
305-372-8862

109193 Andrew

Tab 116/1      Chk 7168      Gst 1  
Apr20'09 05:37PM

6 Indian Wells	28.00
Bacardi Limon Cranberry	10.00
1 ZYR Rocks	12.00
1 Diet Coke	2.25
1 Bacardi Limon Cranberry	10.00
Subtotal	62.25
Tax	4.98
06:23PM Total	<b>67.23</b>

Thank you for dining with us.

Join us for Happy Hour at the bar on Monday through Friday from 4pm to 7pm!!

A gratuity of 18% will be added for parties of 6 or more.  
miami@theoceanaire.com

The above receipt does not reflect the included tip of \$10.00. The total charge is \$77.23.

- Dr. Lynn  
- Dr. Coy  
- ABBE BENDALL  
- MARIO MENDEZ  
Re: FHS Future Business Opps

**THE OCEANAIRE**  
*Seafood Room*

900 South Miami Avenue  
Suite 111  
Miami, FL 33130  
305-372-8862

109263 Joshua

Tab 31/1      Chk 7174      Gst 4  
Apr20'09 06:40PM

1 La Crema	375	29.00
1 House Salad		6.95
1 Caesar Salad		7.95
1 Ceviche Mixto		27.95
1 Cappucino		4.95
1 Scallops Special		34.95
1 Trout- Rainbow Crab Crust		30.90
1 Shrimp Scampi		28.95
1 Snap-Yellowtail Special		41.95
1 Mashed		6.95
1 Bok Choy		8.95
1 Key Lime Pie		9.95
Subtotal		239.40
Tax		19.15
08:18PM Total		<b>258.55</b>

Thank you for dining with us.

Join us for Happy Hour at the bar on Monday through Friday from 4pm to 7pm!!

A gratuity of 18% will be added for parties of 6 or more.  
miami@theoceanaire.com

The above receipt does not reflect the included tip of \$40.00. The total charge is \$298.55.

Dinner attendees listed were FHS executives:  
-Lynn, Medical Director  
-Coy, Associate Medical Director  
-Bendell, Senior Vice President  
-Mendez, former Executive Vice President and Managing Director

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- OIG auditors observed that FHS staff meetings and staff social events often involved food. Beyond the Au Bon Pain charges discussed earlier, OIG auditors noted that FHS often invited staff out for “welcome” and “farewell” lunches or dinners for incoming and departing employees. Based upon the actual notations supplied by the cardholder, we specifically found the following questionable dining charges:
  - FHS “Employee’s Holiday Party” on December 15, 2009 at the Blue Martini for \$4,104 (see Exhibit B-1 and B-2<sup>13</sup> next page). We note that the charge includes \$2,040 for a two-hour open wine bar.
  - “FHS Party” on May 22, 2008 at The Knife in Coconut Grove for \$813.16.
  - Five welcome or joining FHS staff dining events at: Manny’s Steakhouse for \$180.66; Segafredo Zanetti on Miami Beach for \$173.04; Rosa Mexicana for \$21.51; Vito’s Restaurant for \$89.44; and Perricone’s for \$149.14.
  - Four farewell lunches: Papa John’s pizzas for \$146.87; two meals at the Latin Café, one for \$134 and the other for \$227; and the University of Miami Restaurant for \$53.07.
  - Relating to a departing employee, we found a dining expense for \$54.34 at Gordon Biersch. The notation reads “HR Recommendations for [departing employee].”
  
- Another abusive practice observed by OIG auditors was the frequent dining by two or more co-workers absent any consultants, contract employees, or other third parties. FHS employees would dine at local, albeit more modest restaurants, often at the University Restaurant & Patio, located at 1050 NW 14<sup>th</sup> Street. Typical justifications for these co-worker lunches included marketing, business development, and business lunch. There is absolutely no reason why public funds should pay for employee lunches. If employees wish to discuss work during their lunch break that is up to them, but the public should not have to buy their lunch.
  
- Lastly, in addition to the employee-related dining charges already discussed, OIG auditors found an additional 14 charges, amounting to \$1,102, where the supplied purpose expressly stated that the food was related to a staff meal, e.g. “staff breakfast,” “staff meeting,” “employee lunch,” etc.

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<sup>13</sup> This receipt was provided by FHS in its response, and our reported charges of food, bar and gratuity were adjusted accordingly.

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**OIG Exhibit B-1**



Proposal Prepared On: 12/3/09  
Prepared By: Vanja Giordano

<p align="center"><b>Event Information</b></p> <p>Club Location: Miami          Event Date: 12/15/2009          Start Time: 6:00 pm          End Time: 8:00 pm          # of Guests: 75          Area Reserved: VIP Bar</p>	<p align="center"><b>Client Information</b></p> <p>Event Host: Foundation Health Services          Contact: Diamela Corrales          Email: Dcorrales@med.miami.edu          Phone: (305) 355-1324          Fax: (305) 548-5440</p>								
<p align="center"><b>Food</b></p> <p>Menu: Custom Party Cost: 980.00</p> <p align="center">6 Hand Passed Platters TBD</p>	<p align="center"><b>Beverage</b></p> <p>Beverage Option: House Wine-Open Bar</p> <p>2 Hours Open Bar - House wine only</p> <p align="right">Cost: 1800.00</p>								
<p align="center"><b>Cost Break Down</b></p> <table style="width:100%; border-collapse: collapse;"> <tr> <td>Menu Total:</td> <td align="right">\$980.00</td> </tr> <tr> <td>Beverage Total:</td> <td align="right">\$1,800.00</td> </tr> <tr> <td>Gratuity:</td> <td align="right">\$552.00</td> </tr> <tr> <td><b>Total Amount Due:</b></td> <td align="right"><b>\$3312.00</b></td> </tr> </table> <p align="right" style="font-size: 1.2em;">\$ 4104.<sup>00</sup></p>		Menu Total:	\$980.00	Beverage Total:	\$1,800.00	Gratuity:	\$552.00	<b>Total Amount Due:</b>	<b>\$3312.00</b>
Menu Total:	\$980.00								
Beverage Total:	\$1,800.00								
Gratuity:	\$552.00								
<b>Total Amount Due:</b>	<b>\$3312.00</b>								

Final count is due 7 days prior to the event.  
 20 guest minimum required. One party/centralized billing is required for all groups.  
 This is an approximation of costs meant for budgetary purposes only. The costs listed above are subject to change based on guest count, menu or beverage changes.  
 \*\*\*Please sign below to acknowledge receipt of this proposal and your agreement to its content\*\*\*

Rolando Rodriguez  
 Event Host
 

12/4/09  
 Date

Activity	Amount \$
12/08/09 ONLINE PAYMENT - THANK YOU	98,183.78
<b>Due in Full Activity for ROLANDO D RODRIGUEZ</b>	<b>Amount \$</b>
12/01/09 MISS SAIGON BISTRO MCORAL GABLES 305-446-8008	34.01
12/15/09 BLUE MARTINI 7 BLUE MIAMI 100 SOUTH MIAMI AVE MIAMI FOOD/BEVERAGE	4,104.00
<b>Total of Due in Full Activity for ROLANDO D RODRIGUEZ</b>	<b>4,138.01</b>



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**OIG Exhibit B-2 (Supplied by FHS in its response as FHS Exhibit 1)**

<p style="text-align: center;">Blue Martini  950 S. Miami Ave #238  Miami, FL 33131  305-981-2583</p> <p>Server: Party                      DOB: 12/15/2009  08:03 PM                              12/15/2009  Fast Close/1                        8/80002</p> <p>ANEX    3145732  Card #XXXXXXXXXX1003  Approval: 161056</p> <p style="text-align: right;">Amount:                      3420.00</p> <p style="text-align: right;">+ Included Gratuity:            664.00</p> <p style="text-align: right;">+ Additional Tip _____</p> <p style="text-align: right;">= Total: _____</p> <p>X _____</p> <p style="text-align: center;">Join us for Happy Hour  Monday - Sunday  4PM to 8PM  Thanks! Come Again  **Gratu! , Not Included**</p> <p style="text-align: center;">Customer Copy</p>	<p style="text-align: center;">Blue Martini  950 S. Miami Ave #238  Miami, FL 33131  305-981-2583</p> <p>Server: Party                      12/15/2009  Fast Close/1                        8:02 PM  Guests: 0                              80002</p> <p>FOOD    1380.00  WINE BAR                                      2040.00</p> <p>Subtotal                                      3420.00</p> <p>Total    3420.00  Gratuity    664.00  Total    4104.00</p> <p>Balance Due                      4104.00</p> <p style="text-align: center;">Join us for Happy Hour  Monday - Sunday  4PM to 8PM  Thanks! Come Again  **Gratuity Not Included**</p>
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**FHS Response**

FHS' response to this finding can be reduced to two main points. First, that itemized receipts are not required. Second, that these expenditure are perfectly acceptable by private business standards. FHS, thereafter, provides anecdotal information on a handful of charges to attempt to prove its point. For example, in reflecting on a \$175 charge, FHS asserts that the restaurant "Los Tres Amigos" does not have the ability to generate an itemized receipt. FHS also maintains that it is totally acceptable to use PHT funds for employee breakfasts and lunches, meals with Board members, and staff social events. The latter includes a \$2,040 open WINE BAR charge for the FHS Employee Holiday Party.

In other instances, FHS maintains that the stated business purpose is self-evident from the name of the party attending the meal. For example, it is self-evident that a meal with an FHS Board member must be to discuss

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business. "Simply stating the names of attendees often provides the context necessary to judge the business purpose, or a simple note such as 'business development' would suffice." FHS also generally states that while the relevance of a meeting may not have been sufficiently documented by FHS staff, it was later judged to be perfectly appropriate by FHS management.

FHS asserts that the OIG did not present sufficient evidence to support that \$24,600 in credit card charges did not have an established business purpose. FHS does concede that there were \$9,059 in credit card charges that were inappropriate and that most of these "were generated by or under the management of the former COO, during the start-up phase of the company."

***OIG Rejoinder***

We maintain that both an itemized receipt and an explanation as to business purpose, including names of attendees, are required. This is a reasonable standard of documentation that businesses require when its employees are given charge accounts or when employees submit requests for reimbursement. More importantly, these documentation standards are required by FHS' own policy. It is also required by JMF's policy.<sup>14</sup>

FHS' response includes copies of some of the receipts reviewed by the OIG as Exhibits. (The OIG retained the originals.) FHS has made alterations to the receipt copies. In a few instances, FHS wrote in tip amounts and totals that were previously left blank. In another instance, the comment "FHS board member" was written under the person's name. In another exhibit, the purported justification "Staff Work Lunch" was added to a receipt that was originally left blank. The OIG finds these post-audit alterations to be completely unacceptable.

Likewise, justifications for certain charges were provided in the narrative of FHS' response. OIG auditors asked for the documentary support behind these statements. FHS sent back to the OIG copies of the same receipts—again with alterations. For example, to support FHS' statement that a dinner was attended by both paid and unpaid consultant physicians, the doctored receipt provided by FHS now contained the names of six attendees.<sup>15</sup> For another charge that FHS contested was legitimate, FHS provided the OIG with a copy of the credit card

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<sup>14</sup> Again, the OIG stresses that the FHS and JMF credit card procedures require itemized receipts for all expenses charged to the credit card. The travel policies address "meals" and require both an explanation and identification of dining guests. It also requires a register receipt or a copy of the dining check.

<sup>15</sup> The OIG still concluded that this \$499 meal at the Prime Blue Grill was a questioned expense, as the newly provided information listed three FHS employees and three physicians retained and compensated by FHS. Moreover, the charge included \$123 for alcoholic beverages.

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statement (there was no receipt whatsoever for this charge) that contained a new hand-written notation not found on the original. Lastly, a *Missing Receipt Declaration* was produced post-audit and supplied to the OIG as new support.

Clearly, written notations made after an audit are inappropriate to support justifying a questioned cost into an allowable one. Instead, doctoring receipts only heightens the OIG's concerns about the internal control culture at FHS.

**Finding No. 2      Credit card charges totaling \$6,295 were spent on a 5-day cruise.**

FHS spent \$6,295 in credit card charges on a Royal Caribbean *Enchantment of the Seas* cruise for five senior FHS executives and accompanying family members. Charges for this trip were shown on a monthly credit card statement whereon there was a handwritten notation that this was a "company retreat" but was without accompanying itemized receipts or a listing of participating employees.<sup>16</sup> The OIG, on its own, obtained records from Royal Caribbean Cruise Lines showing passenger names and on-board charges. We determined that the cruise began on January 3, 2008 and ended on January 7, 2008. Two individuals used their FHS-issued credit cards. One charged \$3,978 for the cost of the cruise and the other charged \$2,317 for on-board expenditures.<sup>17</sup> On-board charges included:

- \$393      Bar and lounge
- \$390      Gratuities
- \$253      Water/Wine
- \$236      Explorations (Shore Excursions)
- \$230      Photo packages
- \$159      Telephone
- \$123      Gift Shop
- \$100      Casino
- \$89      Soda packages
- \$51      Medical services
- \$293      Other miscellaneous charges

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<sup>16</sup> The OIG distinguishes this cruise from the costs associated with another FHS "Strategic Planning Retreat" that we did not question. We note that FHS held a Strategic Planning Retreat at the Sonesta Hotel & Suites in Coconut Grove in January 2009. The invoice/statement shows charges for a one-day meeting package for 15 attendees to include breakfast, lunch and coffee breaks; room rental; and audio video set up. A hand-written list of attendees is noted on the invoice. As documented, we find this expense to be a reasonable organizational expense.

<sup>17</sup> Of interest, the OIG determined that one of the accompanying family members alone was responsible for \$930 (40%) of the on-board charges. There is no indication that these funds were repaid.

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***FHS Response***

FHS justifies the trip as its “first Strategic Retreat.” FHS notes that it got a special rate and that it did not pay the fare for employee family members. The response also suggests that the JMF CEO was “invited” on the cruise “after approval had been granted by the FHS Chairman to the COO.” FHS concedes that there was \$872 of inappropriate charges. FHS blames the former COO by noting that all charges were authorized by him.

FHS explains that it chose this particular cruise because “the company’s medical director was already on the cruise with his family, and had agreed to join the strategic retreat throughout the trip, on his own vacation time, in order to support the planning of medical issues.”

***OIG Rejoinder***

The OIG surely acknowledges that strategic retreats may be appropriate and reasonable expenditures, but a five-day Caribbean cruise is clearly questionable. Again, this is another example where FHS attempts to distance Mr. Rolando Rodriguez’s participation in FHS activities as merely an emissary of the JMF Board—going on the cruise as an afterthought “invitee.” While the FHS response lays blame on the former COO for the inappropriate charges, it was, in fact, Mr. Rodriguez’s FHS credit card that was used to pay for the “on-board” charges.

The OIG disagrees with FHS’ conclusion that only \$872 was found to be inappropriate spending. Instead, the OIG continues to question the entire expenditure.

Lastly, with respect to the vacationing medical director, OIG auditors observed that his cruise fare (\$402.56), parking (\$60), and tip of (\$45) were reimbursed by FHS check.

**Finding No. 3      Credit card charges totaling \$8,271 were spent on questionable purchases of personal goods and services.**

Credit card statements show that former and current FHS cardholders were responsible for 80 transactions, totaling \$8,271, for items of a personal nature. Many of the receipts for these items contain hand-written notes stating “discretionary spending.” FHS employees purchased the items from various vendors, both local and international. The items are, in our opinion, personal in

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nature. Moreover, the accompanying documentation to the expenditures does not substantiate their legitimacy as reasonable and necessary expenditures of public funds. As such, the OIG questions these expenditures.

The following is a partial list of the expenditures:

- \$2,576 Clothes and fragrances at Coin – Realto (Italy)
- \$178 Shoes at Casela (Italy)
- \$176 Clothes, pullover, and a belt at United Colors of Benetton (Italy)
- \$444 Religious artifacts, e.g., Mezuzah, Yalmuka, Tefillin case, and religious amulets at Stimzki (Israel)
- \$158 Silver watch at Levs Jewelry (Israel)
- \$428 Leather briefcase at Tumi
- \$309 Laptop briefcase
- \$172 Purchases at TJ Maxx
- \$1,634 36 local gasoline purchases
- \$572 Purchases at Mont Blanc
- \$150 Toys R Us
- \$137 Dry cleaning
- \$83 Tires
- \$62 Four local car washes
- \$48 Shoe repair

Other examples of questionable expenses not listed above include charges for music downloads, Blockbuster video rental, a weight loss program, Carnival Center for the Performing Arts tickets, Niagara Falls' "Journey Behind the Falls" excursion charge, and drugstore charges for children's medicine.

We note that out of the 80 transactions, 54 of them, totaling \$5,938 were made by the former FHS Executive Vice-President/Chief Operating Officer. We note that at the time these purchases were made, FHS was paying this employee almost \$235,000 per year. Two charges, totaling \$170, were deducted from the card holder's paycheck; however, these purchases are still questioned by the OIG as they should have never been charged to the FHS corporate card in the first place.

### ***FHS Response***

FHS responds, in general, by disputing the OIG's findings in fact and in audit procedure. FHS provides anecdotal justifications for many of these expenses, including an explanation for the clothing charges in Italy. FHS

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explains that four employees, while traveling, had missed a connecting flight and thus were rerouted to their destination. Their luggage did not arrive with them and the COO took the employees to buy two days of clothes (and shoes) in order attend conference meetings. FHS concedes that of the amounts reported by the OIG, \$1,374 were personal in nature and thus inappropriate. These charges were purchases made by the former COO.

***OIG Rejoinder***

FHS, similar to its responses for other findings, provides unsubstantiated anecdotal justifications. However, it does not supply the needed documentary support that auditors need to verify the propriety of the expenditures. Moreover, FHS' explanations raise more questions than answers. For example, in its explanation about the lost luggage, FHS acknowledges that the "plan was to submit a claim to the travel insurance carrier." FHS does not know if that happened and says that it will look into the matter. However, it is clear from the second part of this response that this incident was never reported by the COO to the Board or his CEO. Unfortunately, there were no written explanations observed on the receipts, statements or within the payment file that described these circumstances. Consequently, without proper documentation included in the payment records (receipts and statements), these clothing charges are questionable expenditures of public funds.

**Finding No. 4      Credit card charges totaling \$7,154 were spent on questionable purchases of flowers, gifts, and birthday cakes.**

FHS card users, both former and current, were responsible for 38 transactions, totaling \$7,154, for flowers, gifts, and birthday cakes. These employees made purchases at various vendors for the apparent benefit of certain individuals who are employees of FHS, or others who have some affiliation (often unidentified) to FHS or to one of its employees. The OIG questions these purchases because we do not believe, in general, that they are appropriate uses of public funds. More specifically, we find no connection between these purchases and FHS' mission or any of its contractual responsibilities. FHS employees made:

- 12 purchases for flowers totaling \$1,356
- 16 purchases of birthday cakes, totaling \$852, ranging in price from \$25 to \$88 each (11 purchases named FHS employees whose birthday was being celebrated, 5 purchases did not indicate a name)

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- 10 purchases for gifts totaling \$4,945, including:
  - \$1,392 for Subway gift cards whose recipients were listed as “JMHI Trauma Department”<sup>18</sup>
  - \$4,260 for movie tickets (200 tickets for “Hospitality Services” and the remaining 400 tickets for unidentified recipients)
  - \$236 for Walgreens’ gift cards (receipt accompanied by a notation indicating that the purchase was approved by the FHS CEO; however, no purpose was stated as to whom, why, or what entity would receive the gift cards)
  - \$160 for Miami Heat tickets (unidentified recipients)
  - \$106 for six travel mate office kits (unidentified recipients)

***FHS Response***

FHS provides anecdotal support for many of these expenses. Regarding flowers, FHS states that it sometimes orders flowers for the JHS management team or for VIPs that are admitted to the hospital. FHS also notes that the movie tickets were given to JHS employees “as a motivational thank you for their support” and the Walgreens gift cards were given to Jackson Memorial Hospital volunteers. FHS sums up its response by stating that “these are normal business expenses for client and employee recognition” and that, over four years, they are reasonable in the context of the mission of FHS.

***OIG Rejoinder***

The OIG notes that these types of expenditures, albeit involving small dollar amounts, are inappropriate in the context of this Management Agreement. PHT public funds should not be passed through FHS to ultimately pay for flower arrangements for the JHS management teams and to buy “thank you” gifts for JHS staff. While, in the context of a marketing and trade conferences, some giveaways are appropriate, we continue to find that the lack of documentation as to these gifts renders them questionable.<sup>19</sup>

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<sup>18</sup> The Trauma Department is staffed by PHT/JHS employees.

<sup>19</sup> After reviewing FHS’ response to this finding, the OIG removed two gift expenditures as questioned costs. One was \$760 for “glass globes” which were purchased for the “JMHI Annual Award.” FHS stated that these were given to FHS employees in recognition for exemplary work. The second charge was \$382 for JMHI Holiday Cards. We note that Florida Statute 286.27 prohibits the use of state funds for greeting cards, but acknowledge that PHT funds are not state funds and, therefore, we have allowed this cost.

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**Finding No. 5      Credit card charges totaling \$12,290 were spent on questioned local limousine services.**

FHS credit card users incurred charges for limousine services totaling \$13,090 of which the OIG questions \$12,290.<sup>20</sup> We question these costs because incomplete records preclude our ability to determine why these are proper FHS expenses. We noted missing receipts, no stated business purposes, FHS employee trips that appear to be personal, unidentified and unnamed passengers, and a reference that indicates that one trip was JHS related.

Some of the questionable FHS personal trips include the following:

- Local limousine trips for a former FHS Executive Vice-President/COO:
  - \$345 From Jackson Medical Towers to Miami International Airport (MIA) and 3 days later, from MIA to Jackson Medical Towers
  - \$152 From Jackson Memorial Hospital to North Kendall
  - \$143 From MIA to the FHS office
  - \$108 From Jackson Medical Towers to Jackson East Tower (invoice data indicates that the trip between the Jackson locations included an intermediary stop at MIA)
  
- Local limousine trips for the current Executive Vice-President of Hospitality Services:
  - \$156 From home to Jackson Memorial Hospital
  
- Local limousine trips for the current Executive Vice-President/Chief Operating Officer:
  - \$176 From MIA to home
  - \$135 From/to locations not stated; no receipt for this trip
  
- Local limousine trips for three individuals:
  - \$365 A JHS employee, from home to MIA; and both the former Executive Vice-President/Chief Operating Officer and current Executive Vice-President/Chief Operating Officer from Jackson Towers to MIA.

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<sup>20</sup> After reviewing FHS' response to this finding, the OIG removed from its initially reported questioned costs three trip charges, totaling \$800.



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***FHS Response***

FHS notes that just because the transportation company's name includes the word "limousine," it does not mean that a limousine was supplied. FHS argues that, instead, the transportation charges should be classified as airport shuttle services because staff often had to carry their presentation booths and many other marketing materials. FHS also maintains that it provided transportation to foreign dignitaries, e.g., ministers of health, who were deserving and expectant of private transport services.<sup>21</sup>

***OIG Rejoinder***

The OIG reiterates that these expenditures were questioned due to the lack of documentation available for review. In several instances, there was no receipt and, thus, the identification of the passenger(s) was unknown. In other examples, passengers were listed, but their relationship to FHS was not specified. Notwithstanding, these individuals could be colleagues, patients, insurance brokers, etc. but without a written notation, that relationship cannot be assumed. Lastly, other transportation charges were for employees and there was no written justification for the charge.

**Finding No. 6      Credit card charges totaling \$1,650 were spent on American Airlines Admiral's Club memberships.**

FHS employees, as well as one of its medical directors, have used their FHS credit cards to acquire memberships to the American Airlines Admiral's Club. The American Airlines Admiral's Club is a paid membership program that provides amenities such as Wi-Fi, cyber cafes, music rooms, and business centers. Fees for annual membership range from \$350 to \$825, depending upon the individual's status in the American Airlines frequent flyer program. The more frequent flyer miles an individual has accumulated, the less expensive the cost of the club membership. One-day passes are also available for a \$50 fee.

Between June 2007 and May 2009, there were five transactions, totaling \$1,650, made by FHS credit cardholders to purchase Admiral's Club memberships. These purchases consist of four one-year annual memberships and two one-day passes. An FHS Medical Director, a Senior Vice President/COO, a Vice-President for Marketing and Business Development, and

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<sup>21</sup> Upon review of FHS' response to the draft report, the OIG allowed three charges where the payment records expressly stated the purpose of the transportation. The transports were for a Barbados Hospital Administrator, a Barbados National Public Workers Union representative, and several trips related to the Cayman Ministers Health Conference.

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a Marketing Manager purchased annual passes. An FHS Executive Vice-President/COO purchased the two one-day passes.

While there may be a perceived benefit to improve employees' morale by allowing them wait in a private airline club, as opposed to having to wait in the general airport facilities, this perk appears to be more of a personal benefit rather than a benefit to the public. The OIG questions whether these costs are reasonable and are a good use of the public's money.

***FHS Response***

FHS responds that the original COO for the company approved the airline club memberships for staff who normally traveled. FHS states that it issued, in December 2008, a new travel policy, which excluded the airline club as a non-reimbursable expense and concludes its response with, "there have been no other instances."

***OIG Rejoinder***

The OIG is glad to see that FHS implemented a policy that expressly excludes airline club memberships as a reimbursable expense; however, we found that even after the policy was implemented, FHS senior-level managers purchased one-year airline club memberships, in the amounts of \$350 and \$300, respectively, on their FHS credit cards. This is just another example where FHS adherence to its own policies is non-existent or weak, at best. The OIG reaffirms the finding that all airline club membership expenditures are questioned costs.

**Finding No. 7      ATM cash advances totaling \$810 were made on an FHS credit card, the disposition of which cannot be determined.**

A former FHS Executive Vice-President/Chief Operating Officer used his FHS credit card to obtain two cash advances totaling \$810. The first cash advance was for \$500 (plus \$15 transaction fee) made on Saturday, July 14, 2007, at a Bank Atlantic facility on South Dixie Highway in Miami. The same individual obtained a second cash advance for \$310 (plus \$10 transaction fee) two days later on July 16, 2007, at Scotiabank in St. Kitts.

Both JMF and FHS credit card policies expressly state: "Cash advances are **prohibited** and will be considered embezzlement." Clearly, these two cash advance transactions card violate both JMF's and FHS' credit card policies.

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While the funds attained by the cash advances may have been used for FHS-related expenses, the lack of documentation as to their use and disposition is troubling and raises questions as to the validity of the transactions. OIG auditors attempted to ascertain the uses of these funds and if there was any formal documentation. We found no related records. We can only determine that the monthly credit card statement that included the two unauthorized transactions was accepted and paid without question.

***FHS Response***

FHS states: "This cash advance was NOT taken on an FHS credit card; therefore the credit card policy was not violated, and the use of the funds taken through the cash advance was properly documented." (Emphasis in FHS response.) FHS further explains that: "The cash advance was taken from a credit card which was issued in the name and credit of our Finance Director, since FHS had no credit and the COO had no credit cards."

FHS provides a travel expense report that accounts for only \$475 of the cash advance, still leaving \$335 unaccounted for.

***OIG Rejoinder***

FHS' characterization that the cash advances were not taken on an FHS credit card is disingenuous. As we earlier noted in this report's Footnote 11, Chase and American Express credit cards were initiated under the names and credit of Zully Ford and Rolando Rodriguez, respectively. However, regardless of the initiator of the credit line, the simple fact is that these are corporate credit cards, handed-out to FHS employees for their use for FHS business expenses. **FHS pays the entire bill!**

FHS' illogical rationale—that because these are not FHS credit cards and, thus, are not subject to FHS protocols—would mean that \$1.2 million spent paying Chase and American Express credit cards bills was not subject to any business expense standards. This is absurd.

The OIG questions the FHS-supplied travel expense report. Upon further examination, we were advised that it was not filed with the other travel expense reports, but was found in a staff member's drawer. While the expense report only accounts for \$475, it still leaves \$335 unaccounted for.

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**Finding No. 8      Credit card charges totaling \$10,595 were spent on questionable nursing care services.**

The Management and Services Agreement between FHS and the PHT specifically prohibit FHS from providing patient care at PHT/JHS facilities. Specifically, reference is made to Section 3.5, "Patient Care Services," which reads in part:

Under any and all circumstances, [FHS] is not authorized to provide, directly or indirectly, nor shall it be responsible for any form of patient care services rendered by or at JMH or the PHT, including its medical staff. . . (emphasis in original)

Contrary to the stipulations set forth above, our review of credit card expenditures showed that FHS engaged the services of a medical staffing agency that employs per diem and permanent placement for Nurses, Radiologists, Radiology Technologists, Dental Professionals, Travel Nurses, and Medical Office Support staff. FHS credit card statements show that FHS paid for private nursing services rendered to individuals in the local Miami area and on Fisher Island. Services were provided on the following dates:

- December 23-30, 2007
- January 1-2, 2008
- January 9, 2008
- Unspecified date in January 2008

The OIG finds these expenditures quite troubling. FHS should not be providing medical care or paying for it regardless of where it is provided.

***FHS Response***

FHS states that it does not provide patient care. FHS explained this as a "unique case that was referred to FHS by the then Chairman of the Board<sup>[22]</sup> as a very important patient flying from Switzerland in a private jet and was to eventually go to his home on Fisher Island. He was first to be admitted to Jackson prior to discharge to his home. It was requested that private duty nurses be provided during his stay. This was done via the hospital's recommended nursing agency. This was to be eventually billed to the patient but was not done. The COO subsequently separated from the company."

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<sup>22</sup> FHS' response is unclear which Board it is talking about. The OIG is unsure if FHS means the FHS Board, the JMF Board, or the PHT Board.

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**OIG Rejoinder**

It is apparent that even FHS concedes that these expenditures for private nursing services were inappropriate. However, private nursing care was dispatched to two locations: to a residence in the Miami area and to a residence on Fisher Island. Not surprisingly, once again, all blame is laid on the former COO.

**Finding No. 9      Credit card charges totaling \$14,645 were spent on questionable educational and language learning expenses.**

Our review of credit card expenditures showed that FHS paid for various learning and/or training courses on behalf of its professional staff members.<sup>23</sup> We question the following three expenditures:

- January 23, 2008      Berlitz Language Center      \$8,053

This charge for tuition and fees was made on the credit card assigned to the JMF Finance Managing Director. This expense is not supported by any documentation identifying the attendee, course description, purpose, expected benefit to FHS, etc.

- May 20, 2009      Villanova University      \$5,995

This charge related to several Instructor-led courses covering several months (beginning June 2009 through February 2010).

- Essentials of Project Management (6/1/09-7/26/09) [tuition = \$1,980]
- Mastering Project Management (8/1/09-9/25/09) [tuition = \$2,280]
- Exam Preparation (10/1/09-11/25/09) [tuition = \$995]
- Fin. & Acct. for the Non-Financial Manager (1/1/10- 2/25/10) [tuition = \$740]
- Books, materials, and shipping costs

The FHS employee who used an FHS credit card to register for these courses separated employment with FHS on August 21, 2009. Yet, the timeframe for these courses extended through February 25, 2010. The OIG

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<sup>23</sup> The OIG distinguished between the listed expenditures and those associated with another FHS educational expenditure incurred on June 30, 2008, for \$3,956. This expenditure was not questioned because it was reasonable and the associated training appeared as if it would enhance the skills of two FHS staff who routinely travel to Latin America, in support of FHS' mission to attract international patients.

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questions FHS' judgment in allowing a former employee to reap these benefits at the taxpayer's expense. Furthermore, the supporting documentation does not indicate that FHS has taken any action to recoup the costs related to these courses.

- February 19, 2009 Rosetta Stone \$597

This charge relates to the purchase of English Language Learning CDs. According to a hand-written note on the receipt, this expenditure was incurred to "aid IC's [International Coordinators] & office personnel in assisting patients and clients." The very nature of this expenditure shows that FHS staff did not possess the minimum requirements for this position. As such, FHS should not expend public funds to provide skills that staff members should already possess when hired.

The OIG believes that, if made in accordance with an organization's expenditure policies, continuing education and training expenses are not unreasonable and are entirely appropriate. The three charges identified above, however, are questioned for the reasons given above.

***FHS Response***

FHS disagrees with the OIG's evaluation of these expenses and reiterates that FHS management had valid business reasons to authorize these expenses for legitimate employee development purposes. Specifically relating to the Berlitz Language Center (Berlitz) charge, FHS, in its response, now provides an explanation by noting who the language lessons were for and why. Regarding the Rosetta Stone purchase, FHS begins by saying that it hires foreign-trained physicians as case managers for one third less in salary than a nurse case manager. FHS also notes that a large portion of its medical transfer cases are handled in Spanish. While noting that all employees are fully bilingual, FHS provides that English language computer self teaching programs were supplied to perfect its employees' language skills. Lastly, with regard to Villanova University charges, FHS responds by stating that the employee resigned her position because of a dispute with her supervisor. That supervisor also left FHS two months later and did not note this issue.

***OIG Rejoinder***

The OIG continues to question these costs due to the lack of documentation and unreasonableness of the expenses. The Berlitz charge, while explained by FHS in its response to the audit finding, was not documented

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by any credit card charge receipt, invoice, or supplied explanation for the charge. The Rosetta Stone English Language CD's were for Levels 1, 2, and 3. (The entire tutorial covers Levels 1-5.) If its employees are fully bilingual, as FHS maintains, then there should be no need to expend public monies on basic to intermediate English lessons. Lastly, the OIG contends that the failure by a departing supervisor to note the fact that the separated employee was still being provided with prepaid tuition does not turn a questioned cost into an allowable one.

**Finding No. 10      FHS does not comply with its own policy regarding asset inventory.**

FHS Policy 806(a), *Property & Equipment: Acquisitions*, requires that the Accounting Department maintain a record of all fixed assets.<sup>24</sup> The policy further states that all assets should be tagged and numbered upon receipt. The assigned number should also correspond to the number listed on the asset schedule. In addition, the policy requires that:

On an annual basis assets should be compared to the schedule to ensure that all assets are currently being used or that they physically exist. All differences should be investigated and reported to management.

Needless to say, FHS does not maintain a record of all fixed assets. Purchased assets were not tagged and numbered upon receipt. Besides the purchase records themselves, which were also incomplete, the closest thing to an inventory record is the Tax Asset Detail report that is prepared by the CPA firm in conjunction with preparing the annual financial statements and IRS tax filings.

OIG auditors observed 34 pieces of office equipment located in FHS offices during our physical inventory observation, which we could not find in FHS purchasing records or the Tax Asset Detail reports. These items consist of 4 laptop computers, 4 printers, 24 computer monitors, and 2 other items.

FHS management could not provide purchase order requests or other supporting inventory records for the items observed. It is incumbent upon FHS to maintain complete purchase and inventory records in order to effectively track all office equipment. The absence of complete purchasing and inventory records is troubling because many of these items are pilferable; thus, the lack of records

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<sup>24</sup> Although the FHS policy does not define what constitutes a capital or fixed asset, we were informed by FHS staff that a capital asset is an item whose purchase price is \$500 or greater.



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can provide opportunities for undetected thefts. Further, the lack of records makes it difficult to verify the procurement process used to purchase the equipment.

***FHS Response***

FHS responds, "The OIG's claim that FHS does not maintain records of all fixed assets in completely unfounded and incorrect as noted below." FHS adds that all expenditures that meet the qualification of fixed assets are recorded as a fixed asset in the books of the organization and added to the Tax Asset Detail list on an ongoing basis. FHS also provided explanations for the items noted in the OIG's report.

***OIG Rejoinder***

OIG auditors, during their fieldwork, made multiple visits to FHS facilities to meet with staff and observe equipment items (with staff present). Based on this fieldwork, the OIG prepared its draft report. After reviewing the draft report, FHS staff located "new" information, as presented in its response. OIG auditors, after reviewing FHS' response, returned to FHS to review and meet again with FHS staff to review this information to determine the status of the listed items in this finding. Based on our latest work, OIG auditors revised the quantity of items not recorded from 54 to 34. Our final report reflects these adjustments.

**Finding No. 11      FHS could not account for 13 inventoriable pieces of office equipment valued at \$16,163.**

As explained in the Methodology section of this report, because of the lack of inventory records, OIG auditors assembled their own inventory list based upon credit card purchase records, check register transactions, and the aforementioned CPA-prepared Tax Asset Detail. OIG auditors then conducted a physical inventory to locate these items.

OIG auditors could not locate 13 items totaling \$16,163, consisting of five laptop computers (\$9,971), five desktop computers (\$5,230), one computer monitor (\$534), and two shredders (\$428).

As the steward of equipment purchased with public funds, FHS, at a minimum, should know the whereabouts for all purchased equipment. Moreover, and equally disturbing, is that FHS was not always able to provide basic information relating to the missing items, such as the equipment's service tag or serial number, location, or user. OIG auditors conducted several follow-up

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observations and inquiries of FHS management, in order to locate the missing items. OIG auditors provided FHS management with this list for its assistance in locating these items; however, these items have yet to be located.

***FHS Response***

FHS asserts that the OIG's initial determination of 31 unlocatable assets was incorrect. FHS states that it has accounted for all fixed assets, other than three missing computers. FHS has also hired an outside firm to perform a complete physical inventory to ensure the reliability of all fixed asset records and create more easily managed systems.

***OIG Rejoinder***

OIG auditors, during their fieldwork, made multiple visits to FHS facilities to meet with staff and observe equipment items (with staff present). Based on this fieldwork, the OIG prepared its draft report. Apparently, after reviewing the draft report, FHS staff located some of the previously unlocated equipment. OIG auditors, after reviewing FHS' response, returned to FHS to meet again with FHS staff to observe these items. Based on our latest work, OIG auditors revised the quantity of items not located from 31 items (valued at \$35,081) to 13 items (valued at \$16,163). Our final report reflects these adjustments.

**Finding No. 12      Poor FHS procurement planning has led to \$80,000 in wasteful spending on an incompatible telephone system and unnecessary office equipment.**

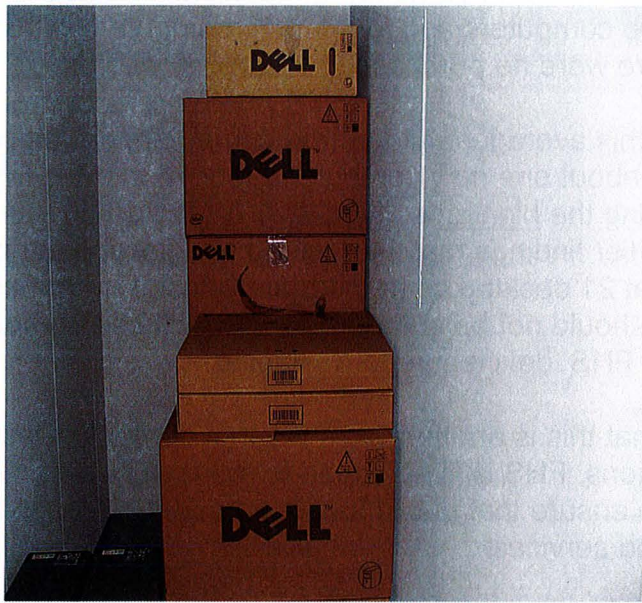
In August 2009, FHS purchased a \$56,665 AT&T phone system that has never been used because it is incompatible with the JHS telephone system. Apparently, prior to purchasing the new office phone equipment, FHS did not perform any pre-purchase review or testing of the equipment to ensure that it performed at a desirable level or to ensure that the equipment would be compatible with JHS systems. According to FHS management, the equipment cannot be returned because it was a customized order. This equipment currently is being stored at FHS offices.

In mid-2009, FHS management, anticipating future growth, purchased new computers for prospective employees. As events transpired, however, the need for the employees did not materialize. As a result, OIG auditors observed 21 Dell T7500 workstations, worth over \$24,000, unused. We noted that some of these items were still unopened and in their original packaging.

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**OIG Exhibit C**



\* Photo taken by OIG auditors during physical inventory

The OIG believes that the above-cited purchases are the result of poor planning by FHS. As budgets tighten throughout the County and at the PHT/JHS, wasteful spending cannot be tolerated. At a minimum, FHS should have turned over the surplus equipment to the JHS Information Technology Division for possible re-use.

***FHS Response***

FHS concurs. FHS again notes that the executive who made this decision is no longer with the company.

***OIG Rejoinder***

None necessary

**Finding No. 13      FHS made excessive computer procurements.**

We observed that FHS computer purchases appear excessive given the number of staff that would be expected to use a computer. We looked at FHS personnel listings to quantify how many employees comprise its management and administrative staff, and its international coordinators. Between 2006 and 2009, there were anywhere from three to 33 employees that worked in these areas. During this time, FHS purchased 73 desktop computers worth \$85,910

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and 14 laptop computers worth \$26,045. In addition, OIG auditors observed another nine desktop computers and four laptop computers within FHS office space for which there were no purchase or inventory records.

Collectively, this averages out to three computers per employee during the four-year period, or about one new computer every 16 months for each employee, when using the highest staffing level for the entire four-year period. Accordingly, our earlier findings that 14 desktop and seven laptop computers are unlocatable, and that 21 desktop computers are unused, with many still in their original packaging, should not be surprising given all these computer purchases and, also, as noted, FHS' deficient record keeping.

We believe that this is another example that demonstrates that, even after four years of operations, FHS is ill equipped to manage basic operational and financial activities to ensure that public funds are spent on reasonable and necessary goods and services.

***FHS Response***

FHS states that the OIG auditors allege excessive computer purchases. FHS goes on to say that it has purchased 85 computers—70 desktops and 15 laptops. In addition, FHS states that there are 58 employees, not 33 as asserted by the OIG. FHS does not dispute, in its response, that the former manager could have purchased fewer computers; FHS advises that this individual is no longer with the company. Regarding its marketing staff having both a laptop and desktop computer, FHS agrees "that in some cases this is excessive and [has] re-evaluated this for future purchase decisions."

***OIG Rejoinder***

The OIG reported that FHS purchased 87 computers—73 desktops and 14 laptops. In addition, the OIG's reported employee count only included FHS management and administrative staff, and its international coordinators. We intentionally did not include concierge hospitality staff, as we believed it unlikely that these individuals had much need for desktop or laptop computers. Thus, notwithstanding the noted minor differences, we reaffirm our finding. We are pleased that FHS promises to exercise greater prudence when evaluating its future needs and determining computer purchase quantities.

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**Finding No. 14      FHS' central services cost allocation methodology lacks authoritative support, leading us to question both the inclusion of and the amounts of certain individual elements that comprise the total.**

There has been a material increase in JMF central services costs paid by FHS since its inception. As shown earlier (Table 5 on page 14), FHS' payments have increased from \$94,998 in fiscal year 2007 to \$472,718 (estimated) for fiscal year 2010. This is about a 500% increase in four years. As previously noted, these amounts do not include FHS direct payments to JMF employees of consulting fees and bonuses, which, if included, would only serve to increase this percentage even more.

For fiscal years 2007 through 2009, JMF invoices for central services costs were based on nothing more than estimates of what it believed was FHS' pro-rata share of selected operating costs and payroll expenses. In 2009, a JMF Board member who believed that JMF was not recovering its FHS-related cost of services recommended that a study be conducted to determine what would be an equitable manner to quantify these costs.

In mid-2009, FHS commissioned one of its consultants to perform such a study, which resulted in a formal methodology to allocate JMF costs to FHS. In November 2009, the FHS Board apparently approved the proposed methodology, which was contained in an FHS Board agenda item to approve its fiscal year 2010 budget.<sup>25</sup> Essentially, the consultant's methodology relies on JMF-provided information on the specific individuals that JMF claims to provide FHS-related services, estimated time that these individuals spend on said services, and on JMF's budgeted costs. OIG auditors requested from FHS any records that it obtained from JMF to support this information. FHS has not provided us with any such information.

Furthermore, OIG auditors reviewed JMF job descriptions and observed the activities of several individuals that JMF identified as central service employees. Our observations and review failed to readily demonstrate how these JMF employees contribute to FHS' day-to-day activities for which they are being paid.

- **Full Charge Bookkeeper and an Accounts Payable Supervisor**  
FHS already has two full-time employees performing required accounting functions—an Accounting Manager and an Accounts Payable Clerk.  
JMF's Finance Managing Director, who is also charged as central services

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<sup>25</sup> FHS Board minutes do not reflect that the Board discussed the item and there is no other notation in the Board minutes, thus we assumed the item was agreed upon and passed.

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staff, stated that the Bookkeeper handles the accounting side of FHS and supports FHS' Accounting Manager. This Director added that the JMF Accounts Payable Supervisor also supports the FHS Accounting Manager but could not say specifically what duties this employee's support work entails and why it was needed.

- **Accounts Receivable Manager**

OIG auditors asked why JMF was invoicing FHS for an Accounts Receivable Manager when the only revenue that FHS receives is from the PHT. The JMF Finance Managing Director responded by saying that the entire JMF Finance Department assists her in her job function, which includes FHS-related activities but, as before, could provide no detail of what this work entails and why it was needed.

In arriving at a cost allocation methodology, we found no indication that the consultant was provided with actual historical cost data that could be used to evaluate the reasonableness of JMF's allocated costs and, thus, the share that FHS (or in actuality the PHT) would pay. This is important because JMF central services include allocations not just for payroll and salaries, etc., but also for rent, utilities, cellular service, auto, and insurance.

For salaries and payroll, there are no historical JMF time or activity records, documenting the work performed and amount of time spent by JMF employees on FHS-related activities, which would support why these individuals should be included as central services and the reasonableness of JMF's estimated time percentages. In short, there is no evidence, i.e., audit trail, that JMF's central services allocation is based on something more substantial than someone's arbitrary decision as to what is an allocable cost and how to allocate it. Without more, it appears that public funds are being used to subsidize JMF's staffing costs without directly supporting the scope and mission of the Jackson International Program.

### ***FHS Response***

FHS responds that central services fees cover only costs to the JMF, and that said costs have increased, as its operations budget and revenue have increased, and that this is logical and is to be expected. FHS adds that the methodology used to assess the actual estimated cost to JMF of providing these services was well documented and sufficient for FHS' accountants, auditors, and board. Lastly, FHS asserts that the proposed OIG corrections would be more expensive than current allocations.

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***OIG Rejoinder***

The OIG acknowledges that JMF is entitled to some reimbursement for services that it provides to FHS. We believe that such reimbursement should be supportable by authoritative historical cost data. It would seem to the OIG that it would greatly benefit both JMF and FHS, if JMF were to have such records to document its cost of services. These records would be a more reliable than verbal assertions by staff of estimated time spent.

For instance, FHS, in its response, uses its HR (Human Resources) Department as an example to justify its allocation method. According to the FHS allocation methodology, JMF's assigned tasks for its two most senior HR staff—the departmental Director and the Manager—are for “monitoring time tracking and processing payroll” for FHS non-exempt employees. According to this methodology, these activities consume an estimated 65% of these two employees' time. FHS' estimated central services cost for these two staff for FY2010 is \$108,027. Notwithstanding the alleged duties of these two individuals, we note that FHS uses an outside vendor to process its payroll and that two FHS accounting personnel are charged with handling FHS payroll duties, such as data input. We suggest that FHS re-evaluate why it is paying two high-priced JMF senior-level personnel to handle routine work that apparently is mostly, if not entirely, being performed by two lower-costing FHS personnel.

**Finding No. 15**      **FHS was not enforcing its internal controls, which would have likely reduced unnecessary, unreasonable, and abusive credit card charges, and which would have likely improved the procurement and record keeping of equipment purchases.**

***Credit Card Usage***

FHS began issuing credit cards to its employees almost immediately after its inception in October 2006. The first credit card usage was in November 2006. FHS issued Policy & Procedure No. 808, Credit Cards Policy, on June 12, 2009, which was almost three years after its inception. FHS authorizes its credit cardholders “to purchase anything permitted under the Foundation Health Services' expenditure policy.” When asked to produce this policy, FHS personnel told OIG auditors that there was no such policy, but added that the cited credit card policy served as the FHS expenditure policy. Under this circular reasoning, any purchase would be allowed.



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As we noted earlier, FHS employees spent approximately \$1.6 million of public funds on business travel, entertainment, and other goods and services. We also noted that many credit card expenditures by FHS employees had little or no apparent connection to FHS' mission and were out-of-character expenditures for an entity spending only public funds. We observed unnecessary or unreasonable FHS employee spending on questionable items, including employee only local dining, alcohol consumption, flowers and other gift items, and local limousine services. To this, we add that FHS employee spending was without supervisory review and approval of their expenditures and, too often, without required documentary support.

We attribute these uncontrolled expenditures to FHS' overall control environment that reflects what we believe to be management's laissez-faire attitude towards its responsibility to manage its operations and use of public funds in a responsible manner. We saw little evidence that FHS management has made much effort to ensure that its employee activities and its business transactions complied with any published standards or good business practices.

FHS operations lacked basic financial controls, leading to wasteful credit card spending on unnecessary and unreasonable items and services. Ineffectual oversight and poor documentation of credit card expenditures precluded transparency and accountability of expenditures of public funds by FHS employees. We observed unenforced procedures; unmonitored processes; ineffectively supervised personnel; perfunctory supervisory approvals of monthly credit card payments; untrained personnel; and, in general, a lack of common sense and understanding of good business practices among FHS employees. These weaknesses, without question, directly and unambiguously spawned a flawed business environment where unnecessary, unreasonable, and abusive credit card expenditures became the norm. This is clearly evidenced in our earlier reporting of questioned costs.

In addition, not only are employee credit card charges not subject to a formal review by supervisory personnel; they, in fact, are not formally reported by employees, either. FHS receives a monthly credit card billing statement that lists all credit card activity by credit card number, and then circulates the statement among the cardholders. Cardholders are supposed to address their charges and attach itemized receipts and notations as to the business purpose of the expense and, if necessary, the name(s) of all other persons associated with the charge (e.g., dinner guests)—and return the statement with attachments back to the Finance Department. Then, FHS Finance personnel prepare a check or wire transfer request for signature, obtain required signature(s), prepare and mail the check, or initiate a wire transfer, to pay the credit card company.

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We note that the procedure does imply that some level of review will be performed, but provides little in the way of specific information about this review. The policy simply states:

Charges that exceed the Foundation Health Services' policy or are considered inappropriate use of the organization's funds **will be payroll deducted from the cardholder's paycheck**. The Finance [D]epartment will notify the cardholder of any amount being deducted from their paycheck prior to the payroll run. (FHS emphasis)

The OIG was provided with only two instances where personal expenditures were deducted from an employee's paycheck.<sup>26</sup> However, in other instances where the term "discretionary" was noted, no action was taken to deduct those charges from the employee's pay.

In addition, a significant mistake by FHS was that it did not comply with its Policy No. 808, *Credit Cards Policy*, which states, "Periodically the external CPA will reconcile cardholder's charges and will review monthly summaries and original receipts." FHS informed OIG auditors that the required reconciliations and reviews never happened, but would not explain why when questioned about this omission.

We believe that an external CPA charged with the stated requirement would have identified at least some, and maybe many, of these questioned costs. In particular, those that were not supported by receipts and without stated business purposes should have been questioned by the CPA. We would like to believe that management, upon reviewing such results, would have taken appropriate action to ensure that, henceforth, business expenses would be supported by receipts and stated business purposes. This would likely have deterred employees from taking such liberties, as we have earlier described, with their FHS-issued credit cards.

Overall, FHS management has failed to implement the policy and FHS employees ignore it, as if it does not exist. Although this policy may have been issued almost three years after FHS began using credit cards, we note that it contains the basic control elements of an otherwise well-intentioned policy governing credit card issuance, documentation requirements, and monthly reconciliations, including the requirement that the external CPA will reconcile charges and review receipts, etc. No matter how well-intentioned, if controls are not enforced, the value of any policy is diminished.

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<sup>26</sup> These were provided to the OIG as FHS Exhibit 13 in its response.

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***Office Equipment Procurements, Record Keeping, and Inventory***

As was the case when we reviewed the implementation of FHS' credit cards and travel expense policies, FHS management has also not done well in implementing procurement and inventory policies either. As stated before, in the absence of written policies and procedures, FHS should have used good business practices and common sense, this time regarding equipment purchases and inventory.

Our examination of office equipment purchasing and accounting records revealed that there was no "determination of needs" made by FHS management; no written and approved purchase *Requisition Forms* accompanying requests for goods or services; no written and approved purchase request orders; no written and approved capital asset request forms; no complete record of all fixed assets; and no tagging and numbering of all assets when they are received. As a result, we found that FHS could not locate all of its purchased office equipment and could not document the purchase of certain office equipment located within its offices. Moreover, it purchased unnecessary equipment wasting tens of thousands of dollars.

As earlier noted, effective June 12, 2009, FHS issued written policies regarding purchasing controls, and property and equipment acquisitions and disposals. Contrary to these written policies and procedures, FHS management, in email correspondence to OIG auditors, stated that they "were never required to maintain or prepare" inventory records and that they "do not have readily available an equipment inventory list detailing the model and serial number" of all purchased items. FHS management further stated that preparing such a list now "would require numerable hours to prepare and we do not have the manpower to produce this information on a short notice." FHS management also informed OIG auditors that it has never conducted an annual physical inventory of its office equipment.

***FHS Response***

FHS asserts that the OIG's statement regarding unsupervised spending is incorrect, as supervisors do review credit card reports. FHS adds that the external CPA has met with the CEO to review credit card charges and processes. FHS mentions that the OIG never asked the CEO for his input on this issue and believes its systems support a finding of both supervision and good business practice. FHS also asserts that it has a complete asset listing and is able to identify all fixed assets. In addition, FHS states that "all purchases must have a properly executed requisition" and that these records were provided to the OIG.

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***OIG Rejoinder***

Based on information told us by the JMF/FHS Finance Director and the FHS Accountant, FHS' CPA has never reviewed credit card monthly summaries and credit card receipts, nor has the CPA ever reconciled cardholder charges, as required by FHS P&P 808, *Credit Card Policy*, dated June 12, 2009. Moreover, there was no extrinsic documentation evidencing an external review or a statement reconciliation.

We also note that in its response, FHS states, "The JMF CEO was not assigned to oversee company operations, nor was he involved in any direct oversight of daily business decisions." Therefore, to the extent that we did not discuss this issue with the CEO, we question that, even if we had done so, what information could he have provided to us about staff credit card usage given his alleged non-involvement in daily business operations.

Concerning an FHS asset listing, the JMF/FHS Finance Director emailed the OIG in July 2010 stating that "we do not have readily available an equipment inventory list detailing the model and serial number ..." We note that FHS' Tax Asset Detail Report contains summary information by equipment type. For example, "Dell Precision T7500 Workstations, Tax Cost \$56,665.26." But the OIG questions: How many workstations does this represent? How does one identify one workstation from another? It is impossible to determine answers to these questions using this report, much less complete a thorough physical inventory of equipment. Finally, OIG auditors observed that some FHS purchases had accompanying purchase requisitions, but most did not. We reaffirm our finding.

**IX. UNDERVIEW: OIG OBSERVATIONS REGARDING  
THE PHT/JHS' OVERSIGHT OF FHS**

While conducting our audit, it came to our attention that one factor contributed heavily to the largely ineffective control environment at FHS. That factor is that the PHT, itself, has poorly performed its responsibilities as the contract holder to ensure that the public funds that it dispenses to FHS are being spent properly and in accordance with good public expenditure policy. Two key elements of this policy are accountability and transparency. Our auditors observed at FHS virtually no attempt by its management to implement any policy, formal or informal, that might provide reasonable assurance that there be accountability and transparency. We note that the PHT has taken little, if any, action either to impose upon FHS requirements that it act as a prudent custodian

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and user of public funds or to check that FHS adheres to meaningful, self-imposed requirements.

Recently, much has been made by the media and others about the revenues that FHS claims to generate for the PHT, but lost in all this talk is a serious discussion and evaluation of how FHS spends public funds in pursuit of these revenues. Its annual budget may be considered relatively small, but this does not diminish the importance of the scarce public funds that it spends. This is especially true when considering that FHS employees are spending thousands of dollars on lavish meals, gifts, and other perquisites for themselves, consultants, and others.

Throughout earlier sections of this report, we have taken FHS to task about its credit card expenditures. We assert that it has the primary responsibility to ensure that its employees spend public funds in accordance with some standard of care and for goods and services that are necessary and reasonable for the proper operation of the International Program. Notwithstanding, we also contend that the PHT has an affirmative obligation to take reasonable and necessary steps that protect its interests in these funds and the expenditure thereof. We note that Section 4.7, *Funding*, of the subject Management Agreement states, "PHT will have the right to audit Manager [FHS] at any time." We believe that PHT has made a costly mistake by not auditing FHS earlier.

As observed from the onset, FHS is funded through a budgetary process, wherein FHS proposes what it needs, and the PHT assigns it an annual budget. During the year, FHS submits invoices reflecting a pro-rata share of the approved budgeted funding amount. Notwithstanding the actual practice, the OIG notes that nothing in the PHT resolutions or in the Agreement specifically state that the approved total budgeted funding amount is a *de facto* guaranteed fixed-fee compensation to FHS. The Management Agreement states that "[FHS] will be paid monthly by PHT on the basis of an approved operations budget for the year." We do not interpret this to mean that FHS is entitled to 100% of its approved operations budget, but rather only that the budget sets a not-to-exceed amount as a basis for payment.

Standard business practice assumes that budgets are estimates. An approved budget represents the maximum payable for a specified purpose. Moreover, also a standard practice is that approved budgetary funds that are unspent at the end of the budget period typically are not disbursed to the subordinate entity, but stay with the funds holder—not so with the PHT/FHS arrangement. FHS audited financial statements for fiscal years 2007, 2008, and 2009 show \$3.2 million of FHS "net assets" (revenues less expenses) that have stayed with FHS (see Table 9). Had the PHT and FHS engaged in a more

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standard business practice, most of the \$3.2 million would have remained with the PHT.

**Table 9 FHS Net Assets FY2007 – FY2009**

<b>Fiscal Year</b>	<b>Cumulative Balance</b>	<b>Annual Change</b>
2007	\$1,277,568	\$1,277,568
2008	\$1,173,143	\$(104,425)
2009	\$3,222,034	\$2,048,891

FHS' financial solvency is also demonstrated by its most recent audited *Statements of Financial Position*, as of September 30, 2009, that show that its \$3.2 million of net assets are "unrestricted" and are comprised mostly of \$2.2 million of "cash and cash equivalents." Even with its questioned spending, FHS apparently could not spend all the public monies it received. Logically, its annual budget far exceeded its operational needs.

Although we found no evidence that it has happened, we find it interesting that the Management Agreement states that "FHS transfers any of its surplus funds to JMF to further enhance its charitable mission of soliciting funds to support the activities of the PHT." In other words, unused public funds would be transferred to JMF, the charitable fund-raising arm. We find this clause unconscionable. These funds should be returned to the PHT.

In addition, the Management Agreement states "FHS is a zero budget company without assets." This clearly is not true. Moreover, we note that in its annual budget presentations to the PHT, FHS does not show asset carryover from the prior year. In summary, we think that the FHS/PHT financial reporting relationship has been deficient and has undermined the overall accountability and transparency of FHS operations and the PHT's expenditure of public funds to support said operations.

***JHS Response***

JHS expresses support for its International Program and its "desire to continue to pursue the international market share." JHS states that its "protocols demand transparency, especially when dispensing publicly funded dollars." JHS continues, "As part of our continuous improvement initiatives, we are currently evaluating various business models in an effort to best define our future direction." JHS lists four of the various initiatives that it is considering, including new leadership options, and public/private partnerships with the University of Miami School of Medicine and Florida International University College of Medicine. In addition, JHS states, "JHS leadership will continue to demand that our business partners be committed to demonstrating that they are good



stewards of taxpayer dollars and their adherence to ethical best business practices.”

***OIG Rejoinder***

The OIG is encouraged by JHS’ response but is nevertheless mindful of JHS’ responsibilities to both address problematic conditions that exist at FHS and to provide oversight of FHS’ use of public funds that it receives.

**X. RECOMMENDATIONS**

The OIG makes the following recommendations:

1. We recommend that the PHT/JHS reevaluate the entire arrangement between it and FHS for the operation and management of the Jackson Memorial Hospital International Program and for the provision of hospitality and concierge services. This review should reevaluate the PHT/JHS’ need and desire to outsource both or either of these operations, and the efficiencies to be achieved by the PHT/JHS to manage its own programs directly. Non-monetary considerations, such as accountability and transparency, should also be taken into account in this, or in any consideration regarding the expenditure of public funds.
2. Should the PHT/JHS conclude that it desires to outsource the management and operation of some, or all of the International Program, and/or some, or all of the hospitality and concierge services, the OIG recommends that it consider the following:
  - a. That the program services be competitively acquired through an open Request for Qualifications and/or Proposals process.
  - b. That the agreement be based upon the reimbursement of approved budgeted operating expenses at the actual cost of such expenses, e.g. wages, salaries, payroll taxes, and insurance; office supplies, office equipment and equipment rentals; direct marketing and advertisement placement costs; pre-approved travel expenses, etc.
  - c. That the procurement of equipment and consultant services adhere to public procurement standards, including the need to competitively acquire goods and services through price competition or other evaluative processes.



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3. The PHT/JHS should require FHS to return the current unrestricted cash balance (which was approximately \$2.2 million ending September 30, 2009).
4. Because the International Program and hospitality and concierge services are two programs funded by taxpayer dollars, the Miami-Dade County Board of County Commissioners may want to condition the PHT's assignment of its funds to the service provider (FHS) based on a cost reimbursement methodology. The BCC may also want to consider the imposition of reasonable expenditure standards consistent with the expenditure of public funds.

In accordance with Section 2-1076(d)(2) of the Code of Miami-Dade County, the OIG requests to be provided with a status report in 90 days addressing the issues and recommendations provided herein. We request this report from the PHT/JHS on or before January 25, 2011.

Lastly, the OIG would like to thank the FHS and JMF staffs for making their records available in a timely manner and for the courtesies extended to OIG auditors during the course of this review.