

STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL



Compliance Review of Allina Health Systems and Medica Health Plans (September 2001)

Introduction

In 2000, after federal auditors questioned the spending of Allina Health Systems ("Allina"), Minnesota's largest healthcare system, the Office of Minnesota Attorney General Mike Hatch sought to review Allina's financials to determine whether Allina was properly administering its charitable assets.

Rather than cooperate with the Attorney General's Office's request for information, Allina withheld facts from the Attorney General's Office and forced it to go to court to compel Allina to turn over its financials. In its court papers, the Attorney General's Office revealed that Allina executives spent millions of charitable dollars on image consultants, golf trips, gift certificates, liquor, spas, and other entertainment. Allina also paid executives excessive bonuses even when financial goals were not met and took out multi-million-dollar life insurance policies for its executives. The Attorney General's Office asked an auditor to review some of Allina's records and found that as much as 47% of health insurance premiums paid to Medica (Allina's HMO at the time) was spent on Allina's administration and overhead costs, rather than on patient care. Allina's excessive spending on perks, entertainment, and executive compensation raised questions about Allina's management of charitable assets, justifying additional review of Allina's financials.

As a result of the court proceedings, Minnesota legislators became concerned about Allina's management of charitable dollars. Some legislators called for a public hearing to address these concerns, charging that Allina had broken the public's trust. Allina finally agreed to produce its financials to the Attorney General's Office, and the planned public hearing was indefinitely postponed.

Additional documents produced by Allina to the Attorney General's Office showed additional Allina mismanagement and excessive spending. For example, Allina spent approximately \$500,000 on additional "crisis" consultants to help its public image rather than address its spending abuses. The documents also showed that Allina failed to provide proper oversight over the consultants' expenses and reimbursement requests.

After its review, the Attorney General's Office issued its six-volume Compliance Review in July 2001. Among other things, the Compliance Review concluded that the close ties between Allina and Medica resulted in harm to Medica members. Medica premiums were used to shore up Allina's cash position, instead of used to benefit Medica members. The Attorney General's Office encouraged Allina and Medica to split in order to avoid these conflicts of interest.

Following the Attorney General's Office's Compliance Review, Allina agreed to split Medica from Allina. In a Memorandum of Understanding with the Attorney General's Office, Allina also instituted new policies to curb excessive spending on consultants, trips, and executive compensation. The Boards of Directors of both Allina and Medica were reconstituted.

The Attorney General's Office conducted the Compliance Review pursuant to its responsibility to oversee charitable organizations in Minnesota. News articles and court pleadings regarding the Compliance Review and the Allina-Medica split are enclosed, followed by Volumes 1 and 2 of the Compliance Review.

Allina

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