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Medica Health Plans**

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## TRAVEL AND ENTERTAINMENT

### Background

Allina Health System (“Allina”) and Medica Health Plans (“Medica”) are nonprofit corporations organized under Chapter 317A of the Minnesota Statutes. Allina is also a charitable organization and is tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Medica is also tax exempt, as a “social welfare organization” under Section 501(c)(4) of the Internal Revenue Code.

A health care organization, to qualify as a tax exempt, charitable entity, must be organized and operated so that “no part of [its] net earnings . . . inures to the benefit of any private shareholder or individual.” *I.R.C. § 501(c)(3)*. This “private inurement” doctrine applies with equal force to social welfare organizations, such as Medica. *I.R.C. § 501(c)(4)*. The “private inurement” doctrine forbids any flow of the income or assets of a nonprofit away from the organization and to or for the benefit of one or more private individuals for noncharitable purposes. The doctrine is meant to prevent an organization’s insiders from siphoning off any of a charity’s income or assets for personal enjoyment. *See IRS Gen. Couns. Mem. 38459 and 39862*. As an example, in *John Marshall Law School v. United States*, 1981 WL 11168 (Ct. Cl. Trial Div. 1981), a school’s tax exemption was revoked based upon private inurement to the school’s dean and members of the school’s board. The private inurement in *John Marshall* included travel expenses for the dean and his family members, household expenses, repairs and maintenance of automobiles, health club memberships and tickets to professional basketball and hockey events.

The oversight and responsibility for running a nonprofit corporation rests with the corporation’s Board of Directors and executive officers. *Minn. Stat. §§ 317A.201, 317A.305*

(2000). It is the solemn obligation of any nonprofit, charitable or social welfare organization to use its assets to advance its particular purposes. In the case of Allina, its Board and executive officers are charged with ensuring that its assets are used to further its charitable mission as a community health resource. As to Medica, the obligation of its Board and executive officers is to ensure its assets are expended in a manner that furthers its mission as a nonprofit health maintenance organization, specifically to achieve greater efficiency and economy in providing health care services to Minnesotans. *See Minn. Stat. § 62D.01, subd. 2 (2000)*. Allina has also pledged to uphold a “special relationship with the state of Minnesota and its citizens” and to use its resources wisely. (Exhibit 1.)

### **Travel**

Allina’s Travel Policy acknowledges that, “Travel and related expenses have become a major cost item for Allina and have a direct effect on financial results.” (Exhibit 2.) The Travel Policy requires employees to “spend Allina’s money as carefully and judiciously as the employee would spend his or her own funds,” to “exercise discretion and good business judgment with respect to expenses,” and to fully document all expenses. *Id.* The Travel Policy also bans reimbursement for spousal travel expenses and “any expenses exceeding reasonableness.” *Id.*

A sample of travel expenses raises questions as to whether the Travel Policy was implemented.

Allina employees traveled to Aruba, London, Paris, Venice, Grand Cayman, Amsterdam, Athens, Cancun, Los Cabos, Pago Pago, Puerto Vallarta, and San Juan. (Exhibit 3.) For example, Allina purchased airline tickets for Allina President Jim Ehlen and his wife to travel to Grand Cayman Island in 1999 (Exhibit 4) and as well for four nights at a five-star oceanfront

resort that cost over \$600 per night. (Exhibit 5.) While in the Grand Caymans, Mr. Ehlen apparently attended a Board of Directors meeting for MMI Insurance, an unrelated insurance company. MMI, however, only paid for one night of the Ehlen's lodging, presumably because the business purpose of the trip was only one day. Allina paid for the air travel and the rest of the couple's five day stay. Allina provided the State with no justification for incurring these expenses.

Allina paid for over 30 trips to the Hawaiian Islands, including Kahului, Kapalua, Kona, Lihue, Hilo and Honolulu. (Exhibit 6.) Allina paid for over 1,000 trips to California and Florida. (Exhibit 7.) It also paid for trips to such destinations as Aspen and Vail; Augusta, Georgia (during the Masters Golf Tournament); Scottsdale, Arizona; Alaska; New Orleans; and New York City. (Exhibit 8.)

It is noted that Allina will pay up to \$4,000 per year for each physician to attend seminars. Some of Allina's trips relate to attendance at seminars using this allocation. The policy—where Allina pays several thousand dollars on an unrestricted basis each year to attend seminars—creates a “use it or lose it” incentive for Allina employees to travel to exotic destinations using nonprofit money. It appears that the primary motivation for some trips was the seminar's location and that the seminar itself was a secondary consideration. This “use it or lose it” policy raises questions concerning the prudent use of a nonprofit corporation's resources.

A sample of travel expenditures indicates that Allina also ignored spousal travel restrictions. For example, Allina paid for its officials and board members to take their spouses on trips to destinations such as Arizona, Florida and California. (Exhibit 9.) In some cases Allina reported the cost of spousal travel expenditures on employees' W-2 statements. It did not do so, however, in over 75 percent of trips sampled by the State.



The company's restrictions against first class travel also were ignored. Executive vice presidents took out-of-state trips where they flew first class. (Exhibit 10.) Allina also paid for out-of-state consultants' first class air travel. For instance, Karen Vigil, a Medica consultant from California, routinely flew first class. (Exhibit 11.) Jake Butts, a California consultant hired to groom the image of top Medica executives, also routinely flew first class. (Exhibit 12.) Most consultants, however, failed to submit *any* documentation to support their travel, and Allina made no effort to ensure that consultants' airline travel complied with Allina's travel policies.

The following are a few examples of out-of-state excursions taken by Allina officials and board members:

**The Phoenician Trip.** The Phoenician, a five star resort in Scottsdale, Arizona, is regarded as one of the most luxurious hotels in the country. It was constructed for nearly \$300 million in 1984 by Charles Keating—the most prominent figure in the nation's savings & loan scandal. (Exhibit 13.) Keating built The Phoenician using creditors' funds from the now defunct Lincoln Savings & Loan. The Phoenician features a \$25 million dollar art collection, marble from the same Italian quarry that Michelangelo used for the Pietà, chocolate for "tuck in" service flown in from Belgium three times per week, and a 22,000 square foot spa. *Id.*

In April, 1998 Allina paid over \$89,000 to send 24 of its officials, including board members and executives, and 20 of their spouses or guests, on a trip to The Phoenician. (Exhibit 14.) Allina stated that the trip was designed to teach the executives and directors more about corporate "governance" and inspire discussions about "health care reform." (Exhibit 15.)

Of the \$89,000 spent on the Phoenician trip, over \$15,000 went for food and alcohol and over \$4,500 for golf, tennis and spa charges. (Exhibit 14.) Allina officials were entertained at The Phoenician with a \$5,300 gourmet dinner, including over \$900 in alcohol. (Exhibit 16.)

One Allina executive charged Allina for a \$100 floral arrangement to decorate his \$855 per night Phoenician suite. (Exhibit 17.) An executive charged the nonprofit \$50 for breakfast in bed for two (even though the seminar served breakfast.) *Id.* Allina paid thousands of dollars for executives and their spouses to golf with other executives and for executives' spouses to golf with one another. (Exhibit 18.)

**The Napa Valley Wine Tour.** Medica sent its President, David Strand, five of the HMO's other employees, and four of their spouses on a three day trip to the Napa Valley Wine Country of California in May, 2000. In addition to airfare and hotel charges, Medica paid over \$590 for a private limousine tour of the vineyards and \$1,295 for a hot air balloon ride complete with a champagne brunch. (Exhibit 19.) Medica also paid over \$1,900 for the ten person entourage (e.g. almost \$200 per person) to dine at a luxurious spa resort called Auberge Du Soleil and another \$900 to dine at Napa Valley's "most romantic restaurant." *Id.*

**The California "Ethics" Trip.** Allina paid for eight of its employees to travel to Monterey, California in October, 2000 to attend an "ethics" seminar devoted to running a health care system with a "moral center." (Exhibit 20.) One executive charged Allina's credit card \$350 for a ride with Main Event Limousines. (Exhibit 21.) In addition to their airline and hotel bills, the eight executives incurred charges of over \$3,500 for dinner and alcohol. (Exhibit 22.) In just a few days, they managed to dine at four of the most exclusive restaurants in Monterey, including a \$1,500 dinner at the famous Club XIX overlooking the 18th hole of the Pebble Beach Golf Course (featuring \$95 bottles of wine), a \$535 dinner at Monterey's "premiere" seafood restaurant, an \$875 dinner at a "romantic turn-of-the-century" restaurant, and \$780 at a bistro featuring Mediterranean cuisine. *Id.* When an Allina accounts payable employee questioned some of the expenditures, the administrator of a Minneapolis hospital ordered her to pay the bills

because he didn't think there was a "high exposure of media" for the junket. (Exhibit 23.) It is worth noting that this inquiry by an Allina employee into an executive's expense report was the only one ever found by the State in its review.

There is a substantial question as to whether these exotic dinners are compatible with the seminar's effort to create a "moral center" in Allina Health System.

**The Colorado Ski Trip.** Over 25 Allina officials and their spouses or family members went on a ski trip to Colorado in January, 1998. (Exhibit 24.) Executives stayed at the Lodge & Spa at Cordillera, which bills itself as one of the "most luxurious retreats in the world." (Exhibit 25.) The only documentation provided to the State involving this trip promoted a sleigh ride and a lunch followed by a downhill ski race, a cocktail party, and a wine tasting lecture. (Exhibit 24.) The State was only provided expense reports for five of the 24 executives who went on the trip. These five executives charged Allina for personal expenses of almost \$9,000, including lodging, over \$3,000 in meals, and such items as ski lift tickets. (Exhibit 26.)

**The LaQuinta Resort & Club.** Medica paid the LaQuinta Resort & Club in California \$42,500 for a three-day "sales meeting" in March, 1999. (Exhibit 27.) LaQuinta promotes itself as "one of the most coveted golf resort destinations anywhere in the world." *Id.* An additional \$9,500 was paid for airline tickets for 13 Medica employees and eight spouses to participate in the trip. (Exhibit 28.) Invoices provided to the State identified golf charges of \$16,655 including nearly \$2,000 in golf lessons. (Exhibit 27.) The invoices also identified \$6,300 for meals and liquor at prices of up to \$137 per person. *Id.* The invoices also identified \$17,200 in room charges (including \$1,700 in spa charges), \$2,400 for a Jeep tour to "Mystery Canyon," and over \$1,000 in fruit baskets, champagne bottles embossed with "Welcome" and other gifts. *Id.*

### Executive Club Memberships

Allina's Business Expense Reimbursement Policy states that Allina typically should not pay for golf and tennis fees. (Exhibit 2.) IRS guidelines prohibit the deduction of dues paid to country clubs, golf and athletic clubs, hotel clubs and airline clubs. (Exhibit 29.)

Allina routinely ignored its policy on golf by purchasing memberships for 11 of its top executives at prestigious private golf clubs like Hazeltine National Golf Club, Wayzata Country Club, Interlachen Country Club, the Lafayette Club, the Minneapolis Golf Club and The Pines at Grand View Lodge. (Exhibit 30.) Allina purchased for other top executives memberships in athletic and social clubs, such as the Decathlon Club, the Flagship Athletic Club, the University Club, the Marsh, and the Minneapolis Club. *Id.*

Allina routinely paid for charges relating to the executives' private club memberships. For example, Allina reimbursed a top executive \$1,400 for charges incurred at the Minneapolis Golf Club to analyze his golf handicap, to polish his golf clubs, to provide him with valet parking, to pay for minimum dining charges he never used, to get him discounts on his personal golf merchandise at the club's pro shop and for similar charges. (Exhibit 31.) Allina reimbursed CEO Gordon Sprenger over \$4,000 for charges incurred at Interlachen Country Club to upgrade its pool, rebuild its sand traps and for similar charges. (Exhibit 32.) It reimbursed a Medica vice president almost \$8,000 for charges he incurred at the exclusive Lafayette Club to pay off his late fees, to take care of his golf clubs, for his wife's locker room, to decorate the club and for similar charges. (Exhibit 33.) Allina paid for similar assessments and charges in connection with the executives' memberships at other clubs. For example, Mr. Sprenger was reimbursed \$6,000 for a "contribution" to the Minneapolis Club's fundraising campaign in 1999. (Exhibit 34.)

Despite IRS regulations that prohibit the deduction of airline club memberships, top executives were reimbursed for their membership in airline clubs. (Exhibit 35.) Allina even reimbursed its outside consultants for their airline club memberships. For instance, Ms. Vigil billed Medica \$575 for her World Club Membership in 1999. (Exhibit 36.) Two of the contractors of Kris Campbell, the out-of-state consultant who served as a “coach” to Ms. Vigil, also billed Medica for their World Club Memberships. (Exhibit 37.)

In some cases it appears that Allina included club membership expenses on the executive’s W-2 statement, while in other cases this did not occur.

### **Golf and Golf Club Events**

Expenses for employees’ personal entertainment are not supposed to be reimbursed by Allina, according to its policies. (Exhibit 2.) As noted above, golf fees are typically not supposed to be reimbursed. *Id.* Nevertheless, Allina held frequent golf retreats and golfing events. A few examples include the following:

- Allina paid over \$25,000 to the Arrowwood Resort for a “governance” retreat in September, 1999 that included golfing, food, liquor and \$2,500 for a 14-person orchestra. (Exhibit 38.)
- In September, 2000 Allina paid \$41,600 to the Arrowwood Resort for an overnight retreat, which also included meals, golfing, a beach dinner and, this time, a more “conservative” six-piece orchestra. (Exhibit 39.)
- Medica paid over \$30,000 to the Minneapolis Golf Club for an event in August, 1999, including \$1,400 in liquor and, not necessarily related, \$580 for a damaged golf cart. (Exhibit 40.)
- Allina paid the Grand View Lodge \$29,600 in June, 1999 for a four-day retreat for high-level executives, which included thousands of dollars in food and golf. (Exhibit 41.)

- Medica paid over \$36,000 to the Hazeltine National Golf Club for a golf outing in June, 2000, over \$30,000 of which was for golf charges and \$1,100 in liquor. (Exhibit 42.)
- Medica paid over \$23,000, including \$12,700 in golf charges, for an outing and dinner at the Wilds Golf Club in August, 1998. (Exhibit 43.)
- Medica held an event at the Lafayette Club on Lake Minnetonka in August, 1999 that cost over \$13,000, including \$2,600 in golf and over \$10,000 in food, liquor and valet charges. (Exhibit 44.)

All claims for reimbursement of entertainment expenses are supposed to clearly state the names, titles, and corporate affiliations of those "entertained," as well as the nature of the business discussion that took place. (Exhibit 2.) Executives' expense reports were deficient and, contrary to Allina's policy, often did not describe the name, title and corporate affiliation of those who went golfing or the nature of the supposed "business discussion" that took place on the golf course. A few examples of the executives' golf include:

- In just one week Mr. Strand, a top executive, was reimbursed over \$1,500 in golf expenses. (Exhibit 45.)
- In August, 1999 Mr. Strand was reimbursed \$560 to golf at Hazeltine National Golf Club with an Allina vice president and two of Medica's consultants from California. (Exhibit 46.) Mr. Strand stated that the purpose of the golf outing was to discuss Medica's "climate work" with the consultants. Because of the deficiency in their invoices, it is unknown whether the consultants billed Medica for their "professional" time while on the golf course.
- In June, 1998 a Minneapolis hospital administrator was reimbursed for golfing with another Allina executive at a resort in northern Minnesota. No business purpose was identified to suggest that the golf outing was for anything other than personal enjoyment. (Exhibit 47.)
- In June, 1998 a Medica Vice President was reimbursed to golf with his spouse and another couple at the Lafayette Club. (Exhibit 48.)

- Allina paid The Pines, which bills itself as “a legend among Minnesota golf courses,” \$2,500 for a “50 round patron card” for Allina president James Ehlen in March, 1999. (Exhibit 49.)
- In May, 1998 Mr. Strand was reimbursed \$250 to golf at the Hazeltine National Golf Club with an Allina Vice President, an Allina Board member and Allina’s President to discuss “strategy.” (Exhibit 50.)
- In September, 1998 Mr. Strand was reimbursed \$350 for golfing with three officials of the Allina Foundation at the Hazeltine National Golf Club. (Exhibit 51.)
- In April, 1998, an Allina employee was reimbursed \$200 for golfing with three other Allina executives at the North Oaks Golf Club to discuss “Allina issues.” (Exhibit 52.)
- In October, 1998, Mr. Sprenger charged Allina over \$300 to golf at Interlachen Country Club with three fellow Allina executives. (Exhibit 53.)
- In May, 2000, Mr. Strand charged Medica nearly \$300 to golf at Silverado Golf Course in Napa Valley, California, with a Medica vice president. (Exhibit 54.)

The executives’ interest in golf was further demonstrated by the company’s expenditure of \$1.2 million in 2000 to build a warehouse adjacent to the Tournament Players Club golf course to be used for the annual Senior PGA tournament. (Exhibit 55.)

#### Other Sporting Events

Allina paid over \$18,000 for President Robert Spinner’s season, playoff and exhibition tickets to Timberwolves games between 1997 and 2000. (Exhibit 56.) It paid an additional \$2,025 in 1998 and \$640 in 2000 for Mr. Sprenger’s Vikings season and playoff tickets. (Exhibit 57.) It also paid \$5,180 in 1998 for Mr. Sprenger’s season tickets to Twins games. (Exhibit 58.)

Allina paid over \$500 for a weekend event at the Minnesota Horse & Hunt Club, a private hunting club, where five people shot 25 pheasants and had them cleaned and smoked. (Exhibit 59.) In April, 1999 Medica paid \$240 for services from a masseuse named "Madonna" for employee massages. (Exhibit 60.) It paid over \$1,000 in August, 1998 for the same thing. (Exhibit 61.)

### Resorts, Retreats, and Other Offsite Events

As noted above, Allina's policies ban any expense "exceeding reasonableness." (Exhibit 2.) Yet, Allina regularly held overnight retreats and other events at lavish resorts and hotels. For example:

- In July, 2000 Medica paid Madden's Resort \$15,200 for an overnight retreat for senior management led by California consultant Kris Campbell. (Exhibit 62.) At the retreat, the top executives of Medica watched "12 Angry Men," and were assigned alternatively to play-act the roles of Jack Lemmon or George C. Scott. They learned how to deal with "mental blocks," "bring competencies to life," and had "fun time." (Exhibit 63.) (Campbell also charged \$37,000 for her professional fees in putting together this retreat.) (Exhibit 64.)
- Allina paid over \$600,000 to the Northland Inn, which included hundreds of thousands of dollars for a least one dozen overnight retreats for its executives, employees and their consultants. (Exhibit 65.) These retreats were led by the company's California "coaches." Executives attending the Northland Inn sleepover conferences were required to play games, watch movies and sit in each other's laps to "build trust." (The casual manner in which Allina spent its money is reflected in Allina's payment of \$20,000 in November, 2000 to cancel a single event at the Northland Inn.) (Exhibit 66.)
- Allina paid Marriott Southwest over \$300,000 for cocktail parties, dinners and like functions. (Exhibit 67.) Medica executives were expected to attend mandatory cocktail parties at the Marriott Southwest to "bond" with fellow executives. Many of the gatherings at the Marriott Southwest involved small groups, and it is not clear why Allina's spacious conference center, located one block away, could not be used for such meetings. This figure does not include costs for hotel rooms for Allina's consultants, which are believed to total in excess of \$100,000.



- Medica held an overnight retreat in July, 1998 at the Arrowwood Resort at a cost of \$14,800. (Exhibit 68.) The retreat was attended by Ms. Vigil, various California consultants, and top Medica executives. *Id.*
- In August, 1998 Medica held an overnight retreat at Grand View Lodge at a cost of \$7,600 attended by one of the HMO's "coaches." (Exhibit 69.) The consultant then charged \$8,200 to Medica to conduct the retreat and "coach" a Medica vice president. (Exhibit 70.)
- Allina paid almost \$40,000 for banquets, parties and other events at the Hyatt Whitney. (Exhibit 71.) For example, in June, 1998 Allina paid the Hyatt Whitney over \$2,000 for an event for 13 people, including \$1,000 in Dom Perigon and other liquor. *Id.* Allina also rented a penthouse suite at the Hyatt Whitney on at least two occasions in 1999 for parties costing over \$5,000 and \$4,000, respectively. (Exhibits 72-73.)
- In September, 1999 Allina paid \$13,000 to the Izaty's Golf Club for an overnight retreat for senior management and board members. Ironically, one of the purposes of the event was to discuss a hospital's "financial challenges." (Exhibit 74.)
- In September, 1998 Allina paid over \$13,000 for an overnight retreat at Izaty's. (Exhibit 75.)
- In June, 1998 Allina paid Madden's On Gull Lake \$12,400 for a three-day retreat. (Exhibit 76.) (Medica also paid Madden's \$3,500 in penalties when Ms. Vigil decided to reschedule another retreat planned at Madden's.) (Exhibit 77.)
- At least six Allina employees attended an overnight retreat at the Lowell Inn in Stillwater, Minnesota in May, 2000. (Exhibit 78.) The retreat included dinner at the nearby luxurious La-Belle Vie. *Id.* The retreat included a "boating social event." *Id.*
- Allina paid over \$13,500 for banquets and "meeting" at The Marsh, a private spa in Minnetonka. (Exhibit 79.)

- Allina paid the Minneapolis Club over \$120,000 for banquets, parties, and other events. (Exhibit 80.) For example, Allina paid for a group to have dinner at the Minneapolis Club before a Vikings game in October, 2000. *Id.*
- Allina paid the Decathlon Club over \$21,000 for private dinners, "meetings" and membership charges. (Exhibit 81.)
- Allina paid over \$60,000 to the Greenhaven Country Club for various events. (Exhibit 82.)
- Allina paid \$24,000 to the Riverwood Conference Center in Monticello for overnight retreats and other events. (Exhibit 83.)
- Allina paid the University Club \$15,000 for banquets and other events. (Exhibit 84.)
- Allina paid directly to the Calhoun Beach Club \$7,500 for private offsite events. (Exhibit 85.) This is in addition to events for which executives received reimbursement, such as an \$1,100 breakfast to discuss Medica's "climate" in 1999. (Exhibit 86.)
- Medica paid \$2,100 for a 22 person "sales meeting" that took place at the Lafayette Club in November, 1999. (Exhibit 87.)
- Allina paid \$2,800 for an event at the Wilds Golf Club in November, 1998. The business justification for the meeting was "food & laughter." (Exhibit 88.)
- Allina paid over \$50,000 to the Majestic Oaks Golf Club for various events. (Exhibit 89.)
- Allina paid at least \$3,100 for banquets and other events at the Edina Country Club. (Exhibit 90.)
- Allina paid over \$3,200 for an event in November, 2000 at the Lafayette Club. (Exhibit 91.)

## Liquor and Meals

Allina's business expense policy prohibits reimbursement for "any expenses exceeding reasonableness," prohibits the reimbursement of most liquor charges, and requires that the names, titles and corporate affiliations of those entertained and the nature of the business discussion be fully itemized. In addition, Allina's expense reports state that: **"A detailed receipt is needed as documentation. Credit card statements and charge receipts alone are not adequate documentation."** (Exhibit 92 (emphasis in original.)) IRS regulations make clear that expenses are not deductible merely because "a group of business acquaintances take turns picking up each others' meal or entertainment checks." (Exhibit 29.)

Yet, Allina frequently paid for executives to dine with each other. Allina often reimbursed dinner expenses even though the executive claiming the reimbursement failed to attach anything to support the request other than a credit card receipt. In a sampling of invoices reviewed by the State, over two-thirds of all expense reimbursements for meals over \$400 had no itemized receipt to support them, and about one-half of the reimbursements for meals above \$1,000 failed to contain an itemized receipt. Despite the non-compliance with its policies, Allina failed to produce *any* documentation that it denied even a single executive's request for reimbursement of expenses. By not demanding the detailed restaurant or bar bill, Allina made no effort to determine whether the expenditures complied with Allina's business expense policy as it relates to reasonableness of charges or liquor. A few examples include:

- Allina paid nearly \$1,000 in early 1998 for ten top executives and a consultant to dine with one another at Goodfellows. (Exhibit 93.) Only a credit card receipt was attached for documentation.
- Allina paid over \$660 for dinner at Goodfellows with six top Medica executives and Jan Malcolm the night she became Commissioner of Health. (Exhibit 94.) Only a credit card receipt was attached for documentation.

- In November, 1999 Mr. Sprenger received reimbursement for over \$600 for a dinner event at the Chanhassen Dinner Theater. (Exhibit 95.) No business purpose was listed, nor were attendees identified. Only a credit card statement was attached as documentation for the expense.
- A Minneapolis hospital administrator was reimbursed \$1,600 in November, 1998 for twelve executives to dine with one another at Morton's Steak House. The stated "business purpose" to support the expense was "senior management dinner," and attendees were not identified. (Exhibit 96.)
- Allina paid \$1,300 for eleven executives to have a "leadership retreat session" in August, 1998 at D'Amico Cucina. (Exhibit 97.) No itemized receipt was provided to support the expense.
- Allina paid \$2,800 to Ruth's Chris Steakhouse in January, 1999 for executives and board members to dine with one another. (Exhibit 98.)
- Allina paid \$1,000 for executives to dine with one another at The Capital Grille in January, 2000. (Exhibit 99.) Only a credit card statement was attached as documentation.
- A Minneapolis hospital administrator was reimbursed for expenses at the "Tongue & Groove" dance club in Atlanta based only on his credit card receipt. (Exhibit 100.)
- Allina President James Ehlen charged Allina twice for a \$146 dinner at Cafe Diva Wine Bar and a \$258 meal at Mattie Silks in Steamboat Springs, Colorado. Mr. Ehlen first charged the meals on his February, 1999 expense report by submitting his credit card receipts. (Exhibit 101.) He then claimed the same expenses on his April, 1999 expense report, this time submitting his credit card statement. (Exhibit 102.) Allina indicates that it processed both charges. (Exhibit 103.)
- Mr. Ehlen was reimbursed \$1,470 for a dinner for Commissioner of Health Jan Malcolm in May, 1999 based only on his credit card statement. (Exhibit 104.)

- Allina held two dinners at the Edina Country Club, including a \$1,000 dinner for six employees and their spouses in February, 1998 (Exhibit 105) and a January, 1999 party for over \$1,100 for several executives and their spouses. (Exhibit 106.)

In other cases, Allina paid for executives to have dinner with the company's consultants or for the consultants to have dinner with each other. Because of the deficiency in their invoices, it is not known whether the consultants also billed their "professional" time at such dinners. For example:

- Allina reimbursed Mr. Strand over \$300 to dine with Medica's outside attorney, Keith Halleland, and his wife, in September, 1998 at D'Amico Cucina to discuss the resolution of lawsuits against Medica. (Exhibit 107.) No itemized receipt was provided to support the expense. It is difficult to understand how such a dinner could be business related when attendance of a spouse during a discussion about litigation would put Medica at substantial risk by rendering inapplicable the attorney-client privilege.
- Ms. Vigil and four Medica consultants had dinner in Long Beach, California for \$500 that was reimbursed based only on Ms. Vigil's submission of a credit card receipt. (Exhibit 108.)
- Ms. Vigil was reimbursed by Medica for a \$500 dinner in Seattle, Washington. Although no business purpose was listed, Ms. Vigil stated on her expense report that the dinner was with two Medica consultants and a third person. The restaurant bill, however, states that eight people attended the dinner. (Exhibit 109.)
- In November, 2000 Ms. Vigil threw a \$500 "farewell dinner" for a departing out-of-state consultant at LaTuscana Restaurant that was attended by senior Medica executives and a Deloitte & Touche consultant. *Id.*
- In August, 1999 Mr. Strand took two out-of-state consultants from Spencer, Shenk, Capers, Inc. to dinner to discuss "professional development" and "coaching." (Exhibit 110.) No itemized receipt was supplied to support the expense.

Allina executives even enjoyed dining while discussing "reforms" to the health care system. For example, Allina paid over \$1,100 for a dinner meeting at the Nicollet Island Inn with David Durenberger in December, 1998 to discuss "medicare reform" over crabcakes and six bottles of Merlot and Chardonnay. (Exhibit 111.) In December, 1999 Mr. Sprenger was reimbursed \$115 for dinner at the Hyatt Whitney with Commissioner of Health Jan Malcolm to discuss "health care reform." (Exhibit 112.)

### Company Parties

Allina frequently paid for executive parties in a manner that can hardly be called prudent. On some occasions Allina reimbursed employees for the same party or for more than one party for the same person. A few examples of some of Allina's parties include:

- A hospital administrator held a "going away" party when a top executive was promoted to take a position with Allina's corporate office. The hospital administrator submitted the \$2,000 charge for the "going away" party at Goodfellow's restaurant on her March, 1998 expense report. (Exhibit 113.) Three months later, the hospital administrator submitted the same \$2,000 expense on her expense report, this time attaching her credit card statement as proof the expense. (Exhibit 114.) Allina indicates that it paid both charges. (Exhibit 115.)
- In addition to buying a departing executive china while he visited England at Allina's expense, an executive threw the departing executive a \$925 dinner at D'Amico Cucina. He received reimbursement from Allina for both expenses. (Exhibit 116.)
- In addition to giving her Waterford crystal costing over \$200, one executive threw another executive a farewell party at Oceanaire, receiving reimbursement from Allina for both expenses. (Exhibit 117.) One week later, Mr. Strand threw the same departing employee a second farewell party, again at Oceanaire, which was also reimbursed by Allina. (Exhibit 118.)
- Allina threw another departing employee a \$2,300 dinner at D'Amico Cucina, in addition to paying for her \$575 gift. (Exhibit 119.)

- Allina paid \$1,000 for a Minneapolis hospital administrator to throw a farewell party for a departing executive at Morton's Steakhouse in February, 1998. (Exhibit 120.)
- Allina paid the Minikahda Club over \$6,000 for a "dinner and dance for friends" in January, 1999, complete with valet parking. (Exhibit 121.) It paid another \$11,200 for a June, 1998 dinner with over \$1,600 in alcohol. *Id.*
- In addition to giving him framed artwork valued at over \$600, Mr. Sprenger threw an executive a \$2,100 going away party at Interlachen Country Club, complete with valet parking. (Exhibit 122.) Allina reimbursed him for both expenses.
- Allina threw another executive a farewell party for 12 at Aquavit for \$1,700. Besides lobster and chocolate ganache, the bill included \$24 for a single glass of 100-year-old Grand Marnier. (Exhibit 123.)
- Mr. Sprenger received reimbursement from Allina for a catered going away party for an Allina employee at a cost of over \$3,000 in February, 1998. (Exhibit 124.)
- Allina paid over \$2,100 for a top executive to host a going away dinner for another employee at D'Amico Cucina in October, 1998, including valet parking. (Exhibit 125.)
- In September 1999 Allina paid nearly \$70,000 for a company party, including \$10,000 for a laser light show. (Exhibit 126.)

### Gifts

Allina's internal auditors recommended that the company develop a policy on gifts. (Exhibit 127.) It does not appear that Allina ever did so. Moreover, even though the IRS does not allow more than \$25 to be deducted for business gifts (Exhibit 29), Allina routinely purchased far more expensive gifts. For instance, Allina purchased nearly \$500,000 in gift certificates alone between 1998 and 2000. (Exhibit 128.)

On some occasions, Allina reimbursed a single executive for multiple gifts to the same departing employee. On other occasions gifts were reimbursed even though no recipient was listed. A few examples of gifts paid for by Allina include the following:

- One executive bought a departing executive two farewell gifts. He first bought him a golf bag for \$200. (Exhibit 129.) Three months later, he bought him \$280 in golf clubs and divot tools. *Id.*
- Allina reimbursed Mr. Sprenger over \$3,150 for a bronze sculpture for one departing executive. (Exhibit 130.)
- Mr. Sprenger received reimbursement for the \$1,300 golf clubs he gave to Richard Blair when he left the company. (Exhibit 131.) This was in addition to Mr. Blair's retirement package valued at over \$1,000,000. (Exhibit 132.)
- One executive received reimbursement for over \$660 in Waterford crystal in February, 2000 to be given as gifts. (Exhibit 133.)
- In March, 1998 a Medica vice president received reimbursement for \$3,400 for Ordway theater tickets and "Best of Broadway" tickets in Houston, Texas. (Exhibit 134.) No indication of a business purpose was given, nor were the recipients of the tickets disclosed.
- Allina paid over \$6,000 in June, 1998 for crystal boxes and other gifts. (Exhibit 135.) No indication of a business purpose was given, nor were the recipients of the gifts disclosed.
- In April, 2000 a senior executive received reimbursement for \$160 in flowers by submitting his credit card receipt. (Exhibit 136.) Less than three months later, the same executive again received reimbursement for the same flowers, this time by submitting his credit card statement. (Exhibit 137.) Allina indicates that it paid both bills. (Exhibit 138.)
- Allina reimbursed a Minneapolis hospital administrator over \$400 for a Waterford crystal clock and another gift. No indication of a business purpose was given, nor was the recipient of the gifts disclosed. (Exhibit 139.)



- An executive was reimbursed in August, 1998 for gift certificates with no business purpose or recipient disclosed. (Exhibit 140.)

Allina executives were often reimbursed for "gifts" to fellow employees, consultants, and the community, often as if they were personal gifts from the executives. One executive sent over \$3,000 in gifts to Allina employees, consultants and public officials. The executive, Mr. Strand, even sent one to himself with a card reading "Happy Holidays! From David Strand!" (Exhibit 141.) A few examples of other such gifts include:

- An executive billed to Allina a gift certificate for the "Community Giving Campaign's" raffle, receiving personal recognition for donating the gift. (Exhibit 142.)
- In March, 1998 a Medica vice president was reimbursed for a "donation" he made to the Ordway Theater in his own name. (Exhibit 143.)
- Mr. Ehlen made a "contribution" to a United Hospital's softball team which he later expensed to Allina. (Exhibit 144.)
- A Minneapolis hospital administrator wrote a check for \$150 to Abbott Northwestern Hospital to raise money for a summer golf outing and then expensed it to Allina (including his wife's dinner.) (Exhibit 145.)
- The same Minneapolis hospital administrator received reimbursement from Allina for \$125 in "gifts." The check he submitted as the receipt for the "gifts" was written to his son's high school band booster club. (Exhibit 146.)
- Ms. Vigil, the Medica consultant, expensed her \$25 "contribution" to the employee holiday fund. (Exhibit 147.)
- Mr. Sprenger received reimbursement for flowers he sent to various public officials. (Exhibit 148.)

Allina officials also received gifts. Karen Vigil, who acted as Medica's chief operations officer for approximately three years, received nearly \$8,000 in known gifts from Deloitte & Touche ("Deloitte"), Medica's outside auditing firm, which billed the company over \$35 million during this period of time. (Exhibit 162.) The gifts given to Ms. Vigil include:

- Six tickets to an LA Lakers game valued at \$1,950 given to Ms. Vigil in April, 1999 for herself and family members.
- Seven tickets to an LA Lakers game valued at \$1,400 given to Ms. Vigil in December, 1999 for herself and family members.
- Four tickets to an LA Lakers game valued at \$1,100 given to Ms. Vigil in February, 1997 for herself and family members.
- A ticket to a Chicago Cubs game with a postgame dinner in September, 1999. Deloitte also paid for Ms. Vigil's \$395 per night room at the Drake Hotel in Chicago.
- A Detroit Tigers ticket, dinner and overnight hotel stay in September, 1999 valued at over \$220.
- Dinner and tickets to a St. Paul Saints game for Ms. Vigil and family members.
- Ticket to a Boston Red Sox game and dinner at a Boston restaurant. Ms. Vigil's share of the \$285 dinner for two was valued at \$145.
- Ticket to Seattle Mariners game valued at \$375 given to Ms. Vigil in October, 2000.
- \$780 in other birthday, holiday and miscellaneous gifts.
- Over \$280 in LA Lakers tickets and dinner in June, 2000.

In addition, during Ms. Vigil's last week at Medica Deloitte expended approximately \$4,000 to toast Ms. Vigil at a Los Angeles dinner party. The party was attended by approximately one dozen other California consultants utilized by Ms. Vigil at Medica, including Meredith Mathews, Allina's Medical Director, Jake Butts (image consultant), Kris Campbell (coach), Brad Spencer (of Spencer, Shenk & Capers, Allina's "climate facilitation" consulting

firm), Dan Freier (of Reden & Anders, Medica's actuarial firm), and numerous employees of Deloitte.

While Deloitte billed Medica for "out of pocket" expenses on a monthly basis, it did not itemize the expenditures. The Attorney General's Office did not inquire as to how much of the above expenses were reimbursed by Medica.

### **Limousines**

In addition to other limousine travel, Allina paid nearly \$6,000 to Total Luxury Limousine Service (Exhibit 149), \$1,400 to BL Valley Limousine Service (Exhibit 150), and at least \$300 to Carey Limousine. (Exhibit 151.)

### **Luxury Apartments**

Allina paid for five luxury apartments at the Calhoun Beach Club for executives and consultants. (Exhibit 152.) One of these apartments cost \$5,000 per month. *Id.* Allina paid for apartments for other consultants at luxury settings in Minnetonka. (Exhibits 153-154.)

### **Corporate Credit Cards**

Allina originally told the State it had no corporate credit cards. It thereafter "corrected" this statement and told the State that, while it has some corporate credit cards, those cards either were discontinued or only reimbursed when the employee submitted an expense report. (Exhibit 155.) Allina thereafter disclosed that it has maintained the following corporate credit cards:

**The American Express Cards.** Allina now states that it maintained corporate credit cards for two top executives with American Express. *Id.* The bills for these accounts were sent directly to Allina.

**The U.S. Bank Credit Cards.** Allina now states that it maintains corporate credit cards with U.S. Bank for various Allina employees, including those with Minneapolis Cardiology

Associates, Allina Home Care and Hospice, and Allina Transportation. (Exhibit 156.) It appears that these corporate credit cards are in Allina's name.

Allina advised the State that it has another corporate credit card program for approximately 120 cardholders with US Bank but that expenses charged to those credit cards may only be reimbursed with an expense report. (Exhibit 155, 157.) However, an internal Allina memo states that:

Allina has a corporate credit card program through U.S. Bank. The card is supposed to be paid by the employee and submitted for reimbursement on an expense reimbursement form. However, we have found instances where the credit card bill has been submitted and paid directly by Allina. We are also aware that other credit cards may have been paid directly by Allina.

(Exhibit 158.)

**The Wells Fargo Credit Cards.** Allina also indicates that ten employees have authority to incur charges on a corporate credit card held through Wells Fargo. (Exhibit 159.)

A few examples of the types of charges on these credit cards include:

- Over \$1,100 was charged for hotels in Kamuela, Hawaii in November, 2000. (Exhibit 160.)
- Another \$380 was charged to a different hotel on Hapuna Beach in Hawaii in November, 1999. *Id.*
- \$600 was charged to hotels in Vail, Colorado in January, 2000. *Id.*
- Allina paid at least \$5,400 in late fees, finance charges and overlimit fees on its corporate credit cards. (Exhibit 161.)

The State received complaints from Allina employees that the corporate credit cards were abused by employees who used the cards to pay for gasoline for their own automobiles or while on trips. While the few corporate credit card statements produced to the State reveal

expenditures on such items as gasoline and trips (Exhibit 160), the State was not provided sufficient information to determine the extent to which charges on corporate credit cards were made for personal expenses.

**Summary**

The above-referenced expenditures do not reflect an organization that has acted as a good steward of its resources. Substantial assets were expended in a questionable manner with little or no business justification.

In order to restore trust with the public and adequately safeguard the assets of these nonprofit organizations, the companies should adopt and enforce strong policies relating to travel; private club memberships; golf and sporting events; the use of country clubs, resorts, hotels and other accommodations; meals and liquor; entertainment; the giving and receipt of gifts; limousines; and corporate credit cards.

