

**STATE OF MINNESOTA**  
**OFFICE OF THE ATTORNEY GENERAL**

**Compliance Review of Allina Health System and  
Medica Health Plans**

**Volume 4**  
**Consulting Expenses**



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September 2001





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#### IV.

### CONSULTING EXPENSES

#### Section 4.0 Introduction.

In 1998, a little more than four years since the merger, the Allina executive team was in transition. Dr. James Ehlen, the chief operations officer, was leaving the company. Mr. Gordon Sprenger, the newly appointed chief executive officer, was widely known to be considering retirement and had assumed the position of president of the American Hospital Association. As president of the trade group, Mr. Sprenger stated that he needed to dedicate most of his time to that venture. Meanwhile, David Strand, an attorney with no operational experience in an insurance company, an HMO or a hospital system, acted as the chief operations officer of Medica.

Because its senior executives had no operational experience with an insurer or HMO, in 1997 Medica contracted with a Los Angeles consultant named Karen Vigil to review the underwriting performance of the company's commercial accounts. Having at least some insurance experience, Ms. Vigil's duties quickly evolved from simply reviewing the Medica pricing strategy to becoming its "chief operating officer."

Ms. Vigil was affiliated with and previously employed by the Los Angeles office of Deloitte & Touche. She acknowledged that she previously undertook only two "business reviews" while an accountant. She indicated that she had been employed by Wellpoint, a California insurer, for approximately 20 months, where she helped prepare the company's financial statements for a public offering. Ms. Vigil also stated she was employed at Premera Health Plans in Washington for approximately three years and eventually held the position of

president of a subsidiary company for a very short period of time. (Exhibit 1). Upon inquiry from the Attorney General's Office, Premera refused to confirm the reason for Ms. Vigil's departure from the company.

In the fifteen months following January 1, 1998, Ms. Vigil replaced virtually every member of Medica senior staff. (Exhibit 2). Ms. Vigil then retained the Los Angeles office of Deloitte & Touche, a firm with which Ms. Vigil maintained an office in Los Angeles, to "advise" Medica at a cost of over \$35 million during her brief tenure from 1998 to April, 2001. (Exhibit 3). In addition, Ms. Vigil authorized payments of millions of dollars of Medica's money to other consultants, including Kris Campbell, a consultant who served as Ms. Vigil's "personal coach" since 1994 (Exhibit 3), and to other West Coast image consultants who had no knowledge of health insurance or of the Midwest health care market.

The Medica staff raised several questions to Medica executives about excessive consulting work and excessive spending. (Exhibit 2).

After spending millions of dollars on "consultants" who "coached" these executives, within one year Ms. Vigil replaced the second round of executives with a third round in late 1999 and 2000. (Exhibit 2).

Almost all of the executives in the third round, hired by Ms. Vigil throughout 2000, are from other states and lack familiarity with the Minnesota health care market. Once again, several million dollars was expended to "coach" these executives as well.

It appears that since 1998 Medica spent approximately \$20 million per year on consultants who have had past affiliations with Ms. Vigil. (Exhibit 3). Ms. Vigil never issued "Request for Proposals" for such consulting contracts. Further, most of the consulting services were not contractually defined either in scope of service or amount of fee. In addition, the

invoices Medica received from the consultants were generally not documented, and in many cases they were paid without any substantive review. Indeed, it appears that Ms. Vigil simply ordered the invoices to be paid.

**Section 4.1 Vigil Compensation.**

Medica entered into a number of written contracts with Ms. Vigil during her tenure, all of which are attached hereto as Exhibit 5. The compensation associated with these contracts are summarized as follows:

January 1, 1998 Agreement:	Vigil to be paid \$10,000 per week. (\$520,000 annually) for a four day workweek. Medica to pay for Ms. Vigil's local auto rental, lodging and weekly airline trips.
July 1, 1998 Agreement:	Vigil's compensation increased to \$12,500 per four-day workweek, with auto, lodging and airline travel remaining the responsibility of Medica.
January 1, 1999:	Ms. Vigil's annual compensation as an employee of Allina is set at \$435,250, assuming a four-day workweek, plus an additional \$410,000 in cash deferred compensation. Total annual compensation: \$845,250.
October 1, 2000:	Ms. Vigil's employment agreement is amended prior to completion of its stated term. Annual compensation is increased to \$565,250, plus \$410,000 in cash deferred compensation. Total annual compensation: \$975,250.
January 1, 2001:	<p>Ms. Vigil's annual compensation is increased to \$780,000, again assuming a four-day workweek.</p> <p>In addition to base compensation, Ms. Vigil is paid a monthly cash "temporary living allowance" of \$19,900 (\$238,800 annually).</p> <p>Total annual compensation: \$1,018,800</p>



Ms. Vigil's base compensation does not appear to be substantiated pursuant to the Safe Harbor rules of the Internal Revenue Code. (See Executive Compensation Book). In addition, Medica's payment for a luxury sport utility vehicle, a luxury lake front condominium and first class air travel between Minneapolis and Ms. Vigil's homes violate the reimbursement policies of the company. Finally, at no time did Medica require reasonable documentation for the work performed or require any type of review of the work performed by her.

In addition to the above payments, Medica paid over \$22,000 to rent Vigil a luxury condominium. It also paid for her incidentals of daily living, such as her cable TV bill, utility bills, maid service, furniture rental and even items such as shower curtains and window blinds. (Exhibit 6). Medica paid over \$20,000 in airline tickets for Ms. Vigil. *Id.* Many of these airline tickets were first class, even though Medica's travel policy bans such upgrades. (Exhibits 6 and 28). Medica paid nearly \$3,000 for Vigil's valet parking (and car washes) at the airport while she was in California. (Exhibit 6). It also paid approximately \$800 per month for Vigil's luxury sports utility vehicle, its insurance and its maintenance. *Id.*

Medica similarly paid \$22,179 to rent Vigil a luxury condominium at the Calhoun Beach Club in 1999 featuring the "finest...living in the Midwest". (Exhibit 7). Medica also paid Vigil's World Club airline membership (against IRS guidelines), for lavish meals, liquor and parties. (Exhibits 8 and 9). Medica even paid over \$1,300 for Vigil to send holiday gifts to her colleagues and reimbursed her for contributions made to the company's holiday fund. (Exhibit 10).

#### Section 4.2 California Consultants: Introduction.

Medica executives indicate that a number of the other California consultants were retained by Ms. Vigil to "coach" executives, to act as "climate facilitators," and to assist in

"meeting communications." These consultants included Kris Campbell (Section 4.3), Spencer, Shenk & Capers (Section 4.6), Jake Butts (Section 4.7), Cynthia Coulter (Section 4.8) and Fischer and Partners (Section 4.9). The Attorney General's Office interviewed several executives of Medica about the function of these consultants.

The managers indicated that several of these consultants were involved in sleepover conferences that executives were required to attend at the Northland Inn. At the conferences executives were required to play games like "ring toss" to find their "inner-self" and to determine their "sense of risk." Other activities included watching the movie "Twelve O'Clock High," where HMO executives analyze the sense of mission of Gregory Peck when he climbed in a plane to fly up and fight the enemy. In addition, executives recall being required to watch and critique the movie "Twelve Angry Men," apparently to learn more about group dynamics.

The executives recall that some of the consultants were also involved in sponsoring a "meeting in a box," where executives were to learn about the group dynamics of a staff meeting. The executives were given plastic boxes that look like a child's lunch box which contained sheets of paper that were entitled "agenda," "action items," and the like. The executives were taught to use the lunch box at meetings to organize their papers.

Executives recall that other consultants would videotape the managers as they gave a presentation at a meeting so that they would be better able to present themselves in the future.

The managers also indicated that the consultants arranged mandatory cocktail parties at the Marriott Southwest. Managers reported that they were reprimanded if they failed to attend the sessions, which were supposed to instill a group camaraderie.

Virtually every person interviewed by the Attorney General's Office indicated that the work of the California consultants was of questionable value to Allina or its mission.

### Section 4.3 Kris Campbell/Challenge Consulting.

Kris Campbell is a Los Angeles consultant who states that she is a "coach," a "confidant," and an "advisor" to movie stars. In 1999 Ms. Campbell was retained by Ms. Vigil to be a consultant to Medica. According to Ms. Campbell, she served as Ms. Vigil's personal "coach" and friend since 1994. Neither Medica nor Ms. Vigil could supply a resume of Ms. Campbell. Ms. Campbell operated out of her home in Los Angeles.

During 1999 and 2000, Medica paid Kris Campbell, the only known employee of Challenge Consulting, approximately \$1.9 million. Attached as Exhibit 11 are copies of Challenge Consulting invoices submitted to Medica from October 1999 to April 2001.

Prior to retaining Ms. Campbell, Medica did not conduct a competitive bidding process. During the term of Ms. Campbell's association with Medica, Medica did not enter into a written contract and did not establish any parameters concerning the scope of services she would perform, the duration of her work or the amount of fees she would charge. Medica also did not issue any guidelines to Campbell limiting the type of expenditures for which it would provide reimbursement. In fact, Campbell billed Medica over \$300,000 for expenses with no documentation to explain or justify the expenses. Nearly all of Ms. Campbell's invoices for payment were approved by Ms. Vigil, despite Ms. Vigil's status as an outside consultant for much of the time.

Although requested by the Attorney General's Office, Ms. Campbell is not able to describe the work she performed for Medica, other than to describe "executive coaching," or to quantify the benefit to the organization, which work is associated at a cost of nearly \$2 million.

A review of Ms. Campbell's invoices does not shed light on the matter. Ms. Campbell's invoices describe services to Medica in terms like "one-on-ones" with Ms. Vigil (Exhibit 11).

Ms. Campbell also claims to have "coached" other Medica executives, although there appears to be no evidence of a structured or documented approach to such "coaching."

Ms. Campbell's invoices also describe work to create an "organizational climate" through retreats. One such retreat occurred in July of 2000 at Maddens Golf Resort. Ms. Campbell's fees for this retreat totaled over \$37,000, and the costs paid to Maddens totaled over \$15,000, bringing the cost of the retreat at the golf resort to over \$52,000. Attached as Exhibit 12 is a copy of a "Booking History" received from Madden's Golf Resort regarding the retreat for Medica held during July of 2000 and an invoice from Challenge Consulting dated August 3, 2000.

Just as Ms. Vigil, as an outside consultant to Medica, retained Campbell to act as a consultant to Medica, Campbell in turn hired other outside consultants to work at Medica. These consultants apparently acted as "climate facilitators" for Campbell, though it is unclear as to the exact role they played or the qualifications they possessed.

Attached as Exhibit 13 is a memo from Kris Campbell to her subcontractors hired to work for Medica, in which she states she does not need copies of the subcontractor's receipts and that the client (Allina) will pay for the time spent traveling. Campbell's subcontractors typically billed her \$1,200 per day for their work, and Ms. Campbell in turn nearly doubled her subcontractor's charges when she sent the bill to Allina. For instance, attached as Exhibit 14 is a copy of the March, 2001 invoice for \$128,465.53 that Ms. Campbell submitted to Medica.

Attached as Exhibit 15 is the account entry of Challenge Consulting for March of 2001. It indicates that Ms. Campbell paid the "coaches" a fee of \$1,200 per day and in turn billed Medica at a rate of \$2,200 per day. Thus, Campbell, who describes herself as Ms. Vigil's personal coach, confidant and counselor, earned \$1,000 per day per subcontractor for simply

paying other "coaches" to "facilitate climate" at Medica. Ms. Campbell acknowledges that she never trained the subcontractors, used them on other projects or in any way monitored their work.

While Campbell's invoices stated that backup documentation was available, Medica never requested the backup documentation. At no time did any of these consultants have a non-compete agreement with Campbell or, for that matter, even a written contract. As a paid consultant, Campbell should have arranged for the "climate facilitators" to be hired directly by Medica.

#### Section 4.4 Deloitte & Touche.

Perhaps no Medica consulting relationship is as troubling as the relationship with Deloitte & Touche. Between 1998 and 2000, Allina paid over \$35 million in fees and expenses to Deloitte & Touche LLP and Deloitte Consulting. ("Deloitte"). (Exhibit 3). A majority of the Deloitte consulting was done under the supervision of Deloitte partners located in the Los Angeles office, who were long-time associates of Ms. Vigil. As was noted earlier, Ms. Vigil was previously employed by Deloitte in Los Angeles and indeed maintained an office at the Los Angeles office of Deloitte during the term of her relationship with Medica. Although requested by the Attorney General's Office, Deloitte has refused to answer whether it paid Ms. Vigil any fees or expenses during the time that she was employed by or under contract with Allina.

At the beginning of the compliance review, Allina was asked to produce invoices relating to work performed by Deloitte. Allina produced only a handful of engagement letters that related to standard audit work. In response to a C.I.D. (civil investigative demand) served upon Deloitte, the firm produced a number of other engagement letters that Allina failed to produce. However, a majority of these were in draft form or had never been signed by Deloitte or

Allina. (Exhibit 16). A reconciliation of the invoices produced by the two companies indicates that Allina was unable to find in its records over 120 invoices for the period from 1998-2000:

The invoices submitted by Deloitte to support over \$35 million in fees and expenses are deficient. Not one of the over 350 invoices reviewed by the State contained any detail to justify the billing, other than a three or four-word sentence such as, "Center for Aging," "Behavioral Health," or "Pharmacy Benefit Management." Attached as Exhibit 17 are copies of invoices from Deloitte & Touche for consulting work relating to the "Center for Aging" and "Health Care Services" project. Many invoices, such as an invoice dated February 24, 1999 (Exhibit 18), referenced a June 8, 1998 engagement letter which neither Deloitte or Allina can produce. Deloitte rarely provided any detail to support the number of hours worked, even though engagement letters routinely provided that fees would be billed based upon the actual number of hours worked. (Exhibit 16).

Deloitte billed Allina over \$4 million in expenses. The only information provided to justify the expenses was generally a one-line sentence stating something similar to "out-of-pocket expenses" or "expenses (meals, airfare, transportation)." (Exhibit 17). Deloitte never itemized the expenses or supplied underlying documentation to support the expenses. Thus, it was impossible for the State – and for Allina – to determine whether the consultants actually incurred the expenses, the reason for the expenses, or whether the expenses were reasonable.

#### Section 4.5 Fleishman-Hillard, Inc.

Beginning in May of 1999 and continuing through December of 2000, Ms. Vigil hired Fleishman-Hillard, Inc. to provide consulting work. Fleishman, which is headquartered in St. Louis, MO, describes itself as the "largest public relations firm in the United States and the fifth largest worldwide." (Exhibit 19). Medica paid Fleishman over \$1.5 million in 1999 and

2000. Attached hereto as Exhibit 20 is a copy of a summary produced by Allina outlining the payments made to Fleishman. Medica did not have a written contract with Fleishman and accordingly, it is not clear exactly what Fleishman was hired to do. Attached hereto as Exhibit 21 are copies of invoices from Fleishman-Hillard dated 9/22/1999, 2/9/2000, 4/18/2000, 7/12/2000. Fleishman did not identify which consultants performed the work, the dates on which the work was performed, or the work performed for the fees. For example, an April, 2000 Fleishman invoice billed Medica for \$123,208.78 in professional services and provided a seven line summary to support the fees. The description contained phrases such as "Interview and evaluate final candidates for the Vice President position", "Interim support of Vice President function", "Work on Allina Knowledge Network. Take Note. Race for the Cure, Great American Dribble" and "Counsel, strategy development of preparation plan for potential state audit." It also appears that Fleischman billed Medica twice for the same work. Invoice #1075781 (Exhibit 22) received August 21, 2000 billed Medica \$89,631.25 for Professional Services for the month of June 2000. Invoice #1075781 (Exhibit 23) received August 30, 2000 also billed Medica \$89,631.25 for Professional Services for the month of June 2000. The summary provided by Allina indicates that both invoices were paid. (Exhibit 20). It appears that Rob Longendyke, Medica's Vice President of Communications, approved payment for both invoices submitted by Fleishman-Hillard.

#### Section 4.6 Spencer, Shenk, & Capers.

In the spring of 1998, Medica retained the consulting firm of Spencer, Shenk, Capers & Associates, Inc., yet another California consultant. Medica and Allina paid Spencer Shenk over \$2.3 million in fees during 1998 and 1999. Attached as Exhibit 24 are copies of the form 1099's issued by Medica and Allina to Spencer Shenk in 1998 and 1999.

Once again, a review of available documentation does not clarify the nature of the work performed by Spencer Shenk, though it has been described as "climate-related." Attached as Exhibit 25 are copies of invoices from Spencer Shenk dated October 8, 1998, November 17, 1998, January 5, 1999, February 9, 1999, May 12, 1999 and June 7, 1999. Spencer Shenk did not identify in these invoices who performed the work, the date it was performed, or exactly what was done. Rather, bullet points described the work in vague ways so as not to allow the opportunity for meaningful review by the company. For example, in October of 1998, Spencer Shenk billed Medica for 21.5 days at \$2,500 per day, for a total of \$53,750 in consultant fees. The only description provided was the following:

HealthCare Services Meetings for Re-engineering Process: LPMA work with Patrick Dowd; Climate Schedule and work per K. Vigil; Karen's "To Do" List; HCS LPMA Follow-up; See-Do-Get Rework for K. Vigil; Meetings with D&T, Patrick Dowd, K. Vigil, S. Zuanich, K. Campbell; HCS Presentation per P. Dowd. (Exhibit 26).

Spencer Shenk's invoices were also deficient as it relates to expenses. Spencer Shenk's invoice typically listed a category of expenses such as airfare, hotel, taxi, car rental, parking, meals and phone and put one total for each category without any breakdown as to the dollar value for each ticket or meal. Spencer Shenk routinely billed tens of thousands of dollars for expenses in this manner.

Despite the fact that Spencer Shenk was paid over \$2.3 million, there is no evidence that Medica engaged in a bid process prior to retaining the Spencer Shenk consultants, who were brought into the organization apparently on the basis for Ms. Vigil's past association with the firm. There is also no evidence that Medica set forth any parameters at the beginning of the contract that identified measurable goals to be met or a timetable upon which the consultants' services would be complete.



#### Section 4.7 Jake Butts.

In April of 1999, Ms. Vigil hired Jake Butts of Los Angeles who billed Allina through the Los Angeles office of Cameron Communications.

While it is not clear what services Mr. Butts was retained to provide, his work has been described as related to coaching Medica executives in their communications capabilities. By coincidence, a former county attorney in Minnesota met Mr. Butts at a meeting in Los Angeles. After introducing himself as a resident of Minnesota, Mr. Butts responded that he has a client in Minnesota by the name of Allina Health System. When the former county attorney asked Mr. Butts what services he performed, Mr. Butts indicated that he essentially baby-sits the executives and tries to make them feel important.

Attached hereto as Exhibit 27 are copies of invoices from Cameron Communications for the period from April 1999 to October 2000, during which Medica paid over \$150,000 in consulting fees and expenses to Mr. Butts. The only description Butts provided for his fees was the statement "One Day Consulting" and fees ranging from \$3,000 per day to \$3,600 per day. Additionally, Mr. Butts billed Medica nearly \$40,000 in expenses for trips from California, largely related to first-class air travel, in contravention of the company's travel policies. (Exhibits 28) Butts also billed Medica for in-room movie rentals, an expense that Allina will not pay for its employees. Again there is no indication that Medica entered into a written contract with Mr. Butts. Ms. Vigil approved many of Mr. Butts' invoices for payment.

#### Section 4.8 Cynthia Coulter.

Cynthia Coulter is a California consultant who was retained by Medica in 1999 to assist Medica with executive communications and "leadership visibility." Coulter billed Medica over \$190,000 for six months in 1999, which included over \$40,000 in expenses. Attached as

Exhibit 29 are copies of invoices from Cynthia Coulter for the period of February 1999 to June 1999. Like other Medica consultants, there was no written contract between Medica and Coulter, and her invoices were clearly deficient. For example, Coulter charged Medica \$27,645 in consultant fees and \$8,180.67 in expenses for an eighteen day period in April of 1999. (Exhibit 30). Coulter's invoice simply provided a one-paragraph summary of the work performed but did not indicate what work was performed on what day or how many hours were spent performing any particular task. Coulter billed Medica \$40,000 in expenses without once submitting receipts to document the expenses or even detailing what the expenses covered, other than a one line summary stating that it "Includes all travel related expenses, telephone(s), fax for past three months, meeting expenses, meals, parking." (Exhibit 31). Ms. Vigil approved consultant Coulter's invoices for payment.

#### Section 4.9 Fischer & Partners, Inc.

Fischer & Partners, Inc. ("Fischer") is also located in Southern California and was retained by Ms. Vigil in 1999. Medica paid the Fischer consultants over \$180,000 for seven months in 1999 without any written contract to cover the work performed. Attached hereto as Exhibit 32 is a copy of a summary of all invoices paid by Medica to Fischer, prepared by Allina. Fischer's bills failed to itemize which consultant performed the services or the dates on which the services were performed. Attached as Exhibit 33 are copies of all Fischer's invoices produced by Allina. Fischer's bills generally provided only a two or three word description to justify tens of thousands of dollars of fees. For example, on the July 6, 1999 invoice, Fischer billed 80 hours of professional fees at \$170.00 per hour (\$13,600.00) for "two-way communication training." While each invoice generally was accompanied by a short memo providing additional details on the billing, the memo only provided a brief overview of the work

with descriptions such as "assisted with completion of first meeting in a box" and "delivered assessments of the meetings and identified relevant communications work." None of the detail documented the number of hours spent on a project or the person who completed the work. The invoices never itemized the expenses or attached receipts to justify the expenses. Ms. Vigil approved most of Fischer's invoices for payment.

#### Section 4.10 Barbara Caspers.

In November, 1999 Ms. Vigil entered into a consulting agreement with a Californian by the name of Barbara Caspers. (Exhibit 34). Medica agreed to pay her the sum of \$22,667 on November 15, 1999, January 31, 2000 and March 31, 2000. Consistent with this agreement, Caspers invoiced Medica \$22,667 on November 15, 1999. (Exhibit 35). On December 8, 1999, however, Caspers invoiced Medica \$45,333 for professional services to be performed in the following year, noting that the professional services had not been performed. (Exhibit 36). There is no indication of why Medica deviated from the contract terms to pay Caspers the full amount of the contract nearly four months before the services presumably were performed and before the money was due. There is also no documentation that Caspers ever performed the services to support the amount of the pre-payment.

#### Section 4.11 Brian Leither.

In April of 1999 Medica entered into an Independent Contractor Agreement with Brian Leither which stated he would be paid "for the duration of the project work - estimated to be from April 26, 1999 until October 1, 1999." (Exhibit 37). The agreement provided that his compensation would be "in the amount of \$100,000, assuming an average work week of 45 hours per week." Leither billed Medica a total of \$43,500 in May of 1999 and June of 1999

at a rate of \$100 per hour. Attached as Exhibit 38 are copies of invoices from Brian Leither dated 5/14/99 and 6/30/99.

At the end of June, Leither billed through a company called Ingenium Solutions, LLC. Attached hereto as Exhibit 39 is a page from Ingenium Solutions website. Invoices show that for the remaining six months of 1999, Ingenium billed Medica nearly \$350,000. Attached hereto as Exhibit 40 are copies of invoices from Ingenium Solutions for the period of 6/25/99 to 12/23/99. Medica did not produce any additional contract with Ingenium to support the additional payments. In addition, Ingenium billed Medica for "project related expenses" without stating the nature or purpose of the expenses. There was no documentation provided for the expenses.

#### Section 4.12 Meredith Matthews.

In 1999, Ms. Vigil retained Meredith Matthews, M.D., another former employee of Premera, to act as Medica's Chief Medical Officer (CMO). The CMO is a key position in an HMO. HMO executives state the CMO must have the confidence of physicians in the network and be able to negotiate physician concerns ranging from fee agreements to referral patterns to treatment parameters. At least one HMO executive describes the CMO as a physician who must be knowledgeable of the physician community and one who can "feel their pain." Ms. Vigil acknowledges that she did not seek candidates who practice medicine in Minnesota, despite the key role that the CMO plays relative to the local physician community. Not only is Dr. Matthews unfamiliar with physicians in Minnesota, he is unable to practice medicine here due to lack of licensure. Unlike many consultants, Medica entered into a written contract with Dr. Matthews that provided Medica would pay Dr. Matthews \$8,000 per week for working a minimum of three days per week. (Exhibit 41). The independent contractor agreement did not require Dr. Matthews to provide detailed billings for his services; to the contrary, the agreement

stated that Dr. Matthews would "receive this predetermined amount every two weeks (no invoice required)." The agreement also did not set forth goals that Dr. Matthews would be required to obtain or any requirement as to the work he should produce.

On May 27, 2000 Dr. Matthews' status changed from independent contractor to that of Medica employee. In addition to his \$8,000 per week salary, the employment contract provided that Medica would continue to pay for Matthew's furnished apartment and car, travel expenses and meals while he was an employee. (Exhibit 42). Indeed, Medica management's obsession with paying for toiletries (such as Vigil's shower curtains) continued with Matthews, who had virtually every expense reimbursed right down to his toilet paper. (Exhibit 43.) This contract does not appear consistent with the Allina policy on executive prerequisites. (Exhibit 28).

In just six months during the year 2000, Medica paid \$12,000 in airline travel for Dr. Matthews. Attached as Exhibit 44 is a summary of Dr. Matthews' expenses paid by Medica for the period of October 18, 1999 to December of 2000. In addition, Medica paid Dr. Matthews \$4,500 as a "food payout" for seven months in 2000, without requiring him to provide any evidence that he incurred the food charges. (Exhibit 45). All told, Medica reimbursed Matthews over \$25,000 in expenses in 1999, and over \$45,000 in expenses in 2000. (Exhibits 44 and 46).

#### Section 4.13 Jeanne Ouellette

Jeanne Ouellette is another California-based consultant who billed Medica over \$100,000 for approximately six months of work in 1999. Attached hereto as Exhibit 47 are copies of invoices from Ms. Ouellette for the period of February 1999 to July 1999. Medica was unable to produce any written contract with Ms. Ouellette or any document setting forth the expectations placed upon Ms. Ouellette by the company at the time she was retained. Like other consultants, all of Ms. Ouellette's invoices lacked detail. For example, Ms. Ouellette's March 5, 1999

invoice for a two-week period bills Medica for 70.5 hours at \$140.00 per hour (\$9,870.00), yet the only description is "development of communications recommendations and two-way training curriculum and participant workbook for Medica Health Plans." Ms. Ouellette's May 1, 1999 invoice for a two week period bills Medica for 76 hours at \$140.00 per hour (\$10,640.00) by stating "change communication plan and implementation; and work on two-way communications program for Medica Health Plans." At no time does she describe the work performed on a particular day or the precise services rendered. Even though Ms. Ouellette charged the company over \$30,000 in expenses, at no time did the company ever require documentation or itemization of the expenses. Once again, all invoices were approved for payment by Ms. Vigil.

#### Section 4.14 Kenn Hamm.

In 1999 and 2000, Ms. Vigil entered into an Independent Contractor Agreement with Kenn Hamm, another former employee of Premera. (Exhibit 48). Once again, no attempt was made by Medica to identify suitable candidates in the local community, despite the travel and lodging costs associated with the commuting of West Coast consultants. Although Hamm's contract required him to bill Medica at an hourly rate, Hamm provided no documentation of the work he performed to justify his bills. For instance, on one invoice Hamm simply charged Medica for "158 hours of work at \$175 per hour. (\$27,500)" (Exhibit 49). The same invoice listed over \$8,000 listed in expenses, yet the only detail provided was that \$5,856.00 was for airline travel, \$1,583.00 for hotel lodging, and \$436.00 for other expenses. There were no receipts to support these expenses nor was there identification of the dates of the flights, the dates and names of the hotel lodging or the dates that other expenses were increased. Ms. Vigil approved all of Hamm's invoices for payment.

#### Section 4.15 Patrick Dowd.

In 1998, Ms. Vigil hired Patrick Dowd to act as Interim Vice President, Provider and Payor Services. Dowd signed an Independent Contractor Agreement, attached hereto as Exhibit 50, which provided Dowd would be paid \$150.00 per hour to work four days per week. In 1998 Dowd billed Medica over \$210,000. (Exhibit 51). While Dowd's contract specified his hourly rate to be \$150, he often billed at a rate of \$175 per hour.


#### Section 4.16 Louis Brunetti M.D.

In May of 2000 Ms. Vigil entered into an Independent Contractor Agreement with Dr. Louis Brunetti, attached as Exhibit 52, whereby he agreed to provide consulting services. Dr. Brunetti's invoices failed to provide any detail of the services rendered. For example, an invoice dated November 15, 2000, attached hereto as Exhibit 53, indicated each day that Dr. Brunetti worked and the hours worked but no further detail. On this particular invoice Dr. Brunetti billed Medica for 115.91 hours at \$175.00 an hour for a total of \$20,284.25. Dr. Brunetti's Agreement with Medica was executed by Dr. Matthews who at the time was acting as a consultant to Medica. Dr. Matthews also approved for payment Dr. Brunetti's invoices.

#### Section 4.17 "Spin Doctors."

The Compliance Review that formed basis for this Report began in June of 2000 and continued through March of 2001 without any publicity. In late March Allina issued a publicity release stating that it would not permit the Compliance Review to continue without court supervision. (Exhibit 54). Accordingly, the Attorney General's Office filed a lawsuit in Hennepin County District Court, requesting court supervision of the Compliance Review. The lawsuit did attract publicity.

Allina lists over 20 people on its employment roster who have position titles that delineate responsibility in the area of public relations or media relations. (Exhibit 55). In spite of this heavy compliment, Allina retained GCI Tunheim, a public relations agency, at a cost in excess of \$200,000 for "crisis management" between April of 2001 and June of 2001. (Exhibit 56). Allina executives indicate that a physical "war room" was located at the Medica headquarters. Allina also retained other consultants such as a polling firm (Exhibit 57) and political operatives. (Exhibit 58).



The consultants then retained the Commissioner of Health's communication director. (Exhibit 60). The consultants also retained an advertising agency, which prepared response ads to this Report (not yet drafted) at a cost of approximately \$200,000. (Exhibit 61).

In total, the "war room" cost for Allina was over \$500,000 for the three-month period.

Between April of 2001 through June of 2001 the consultants deliberated on a strategy to discredit the Compliance Review Report by planting news stories and editorials to demean the Attorney General's Office.

For instance, the consultants developed a strategy to "change" the mismanagement of Allina into a story that the Attorney General was not finding mismanagement but rather was attempting to change health policy. (Exhibit 62). This was to be accomplished through, among other things, the use of third party surrogates. (Exhibits 63, 64, and 65):

For instance, Mr. Sprenger reported to the war room that he met with the publisher of the Star Tribune and was successful in getting the publisher to recommend that Allina not reform its



spending on travel and entertainment because it would look like the Attorney General had caused the change in policy. (Exhibit 66).

[REDACTED]

Other members of the war room prepared a column to be signed by Bill George, the Chief Executive of Medtronic and Chairman of the Board of Allina. (Exhibit 68). The editorial was published in the Star Tribune. (Exhibit 69). Other members arranged to have former Senator Dave Durenberger. (Exhibits 63, 70, and 71), who has derived income from Allina (Exhibit 72), solicit the St. Paul Pioneer Press editors to publish an editorial that the Attorney General was inappropriately changing health policy. (Exhibit 73). The editors wrote an editorial making that suggestion and further recommending that the Attorney General refer the Medica matter to a group at St. Thomas University, which was a goal of the Medica consultants. (Exhibit 82.) On May 4, 2001 the members arranged (Exhibit 74) to have Burt Cohen, publisher of Twin Cities Business Monthly, run a June editorial criticizing the Attorney General. (Exhibit 75.)

Commissioner of Health Jan Malcolm is a former Vice President of Medica who has been the guest of dinner parties hosted by Medica executives and paid by Medica while she was Commissioner. (Exhibits 76 and 77). The consultants originally intended to have Commissioner Malcolm write an editorial column to praise Medica. (Exhibit 78). This idea was rejected by the consultants, however, because they felt Malcolm was "too close" to Medica. (Exhibit 78). The consultants allegedly encouraged Malcolm, through Deputy Commissioner of Health Julie

Brunner, to lobby the Star Tribune to write stories that the Compliance Review is not about mismanagement but rather one of health policy. (Exhibit 79). The consultants also arranged for other surrogates of Medica to lobby the Star Tribune to write an editorial to encourage the Attorney General to turn the matter over to Malcolm by calling the State's review as a "business climate" issue. (Exhibit 80). The Star Tribune published an editorial on July 29, 2001 (Exhibit 81) recommending that Hatch refer the matter to Commissioner Malcolm and Roger Feldman, a surrogate listed on the "contact list" of Medica's war room.. (Exhibit 63, 64 and 65).

In anticipation that Senator Doug Johnson of the State Senate might hold a hearing on the Allina issue, the consultants determined to preempt the hearing by having Representative Fran Bradley, apparently perceived to be a friend of Medica, hold a hearing in the House of Representatives. (Exhibit 82).

One questions whether any of this activity is consistent with the mission of a not-for-profit corporation. The Compliance Review is authorized by law, and the court ordered that the parties cooperate with each other in the conduct of the Compliance Review. It is questionable whether the use of outside consultants to form a "war room" to discredit a governmental audit is consistent with the mission of a not-for-profit HMO, particularly where \$500,000 in health care dollars were expended on the venture.

#### **Section 4.18 Reasonable Requirements for Retaining a Contractor.**

There are numerous periodicals and reference manuals that describe the minimum prudent behavior of an executive as it relates to selection, retention and management of outside contractors. (Exhibit 83). At a minimum, the executive should:

1. Determine and articulate the goal and the desired outcome of the consulting contractor;
2. Interview contractors as to experience, credibility and knowledge;

3. Obtain references regarding the competing contractors, and issue a request for proposal ("RFP") to each contractor, soliciting written proposals from competing contractors;
4. Enter into a written contract that describes the work to be performed, the desired outcome of the work, the time parameters in which the work will be performed, the expected total project costs, and the documentation necessary to be submitted in order for payment to be made;
5. Keep the responsibility for contract issuance, maintenance and payment within the company and under the supervision of appropriate executives;
6. Require adequate documentation to support fees. Contractors compensated on an hourly rate basis should submit invoices that detail the hours of work performed, identified by day and time bracket, the services performed each hour, and the person who performed the work;
7. All expenses must be itemized on the invoice and supporting invoices for the expenses should be attached to it.

**Section 4.19 The Medica Contracting Procedure as it Relates to Health Provider.**

Medica management has followed detailed procedures with regard to the use of outside health care contractors. For instance, each health provider is reviewed for credentials, competence, and service quality. Prior to performing any medical service each health provider must sign a written contract with Medica and/or Allina which sets forth the type of services performed by the health provider, the fee schedule upon which such services shall be paid, and the necessary documentation to be submitted by the health provider in order to be reimbursed for a claim. Medica's claims procedure manual also states that each health provider must submit, prior to being paid, an invoice that identifies the date of service, the appropriate CPT or HCPCS procedure code (and written procedure description), and ICD-9-CM diagnosis code, a written diagnosis, and the NDC code of any prescribed medication; and as well describe the name of the medication, the recommended dosage and the strength of the medication. In addition, the

Medica claims procedure manual (See Exhibit 84) states that a health provider's claim shall be denied if:

1. The Medica Choice member number is invalid or missing;
2. The date of service is missing or invalid;
3. The Medica member number does not match patient's name;
4. The diagnosis (ICD-9) code is invalid, missing or expired;
5. The procedure (CPT) code is invalid, missing or expired;
6. The charges and services have not been properly itemized;
7. A date is not provided for each service that was performed.

A review of Allina and Medica invoices indicates that the companies routinely deny claims of participating providers if they are not in compliance with the above procedures.

#### Section 4.20 Summary.

In contrast to the deliberate procedure established and followed by Medica and Allina personnel related to the payment of health provider claims, there is absolutely no evidence that similar principles of contracting are applied to "Vigil" contractors. Medica and Allina acknowledge that they have spent over \$56 million on Vigil consultants over the past three years. (Exhibit 3) There has been gross mismanagement of these consultant contracts and gross misuse of funds, including:

1. Failure to interview candidates for consulting positions;
2. Failure to retain local consultants in an effort to control travel and lodging expenses and maximize familiarity with local market dynamics;
3. Failure to prepare written consulting contracts that delineate the services to be provided and the manner of reimbursement;
4. Failure to monitor consultants and permitting consultants to hire friends for other consulting positions;

5. Permitting outside consultants to approve for payment millions of dollars in fees and expenses of other outside consultants;
6. Failure to monitor the payment of consulting invoices, and failure to demand documentation of fees;
7. Failure to demand documentation of expenses;
8. Failure to adopt appropriate and sound management policies that should have detected the misuse of funds as noted above.

As a result of the above acts of mismanagement, the companies sustained damage in the form of:

1. Travel and expense abuses resulting in unsubstantiated payments of millions of dollars. Consultants billed the companies, or other consultants who in turn billed the companies, for travel and entertainment for spouses and other non-consultants, including what appears to be shopping sprees at the Mall of America, first class airline travel, lavish Christmas gifts, limousine services and the like.
2. Inappropriate and wasteful activities authorized by the consultants, including retreats at luxurious hotels, luxury gifts, catering services, elaborate parties, and the like.
3. At least \$10 million in expenditures approved by the principal California consultant for contracts with other California consultants for "personal image work," "staff climate work," cocktail receptions, medical management by physicians, and interim financial management. Medica and Allina executives criticize the use of the California consultants by the principal California consultant and have raised substantial concerns as to abdication by the chief executive officer and chief operating officer in the consulting process.

