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The State Senate
Atlanta, Georgia 30334

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August 27, 2007

Honorable Casey Cagle
Lieutenant Governor
State Capitol, Room 240
Atlanta, Georgia 30334

Dear Casey:

Enclosed you will find a letter from William Loughrey, a longtime Trustee of the Fulton-DeKalb Hospital Authority. It identifies a number of very troubling issues concerning the Grady Health System and its relationship with other institutions. I would encourage you to carefully read it.

Of immediate concern is the existence of independent audits showing that Grady has been overcharged by certain vendors that would stand to benefit from the proposed Grady bailout plan. Obviously, no bailout of any type should be considered until all outstanding audit issues are resolved.

Particularly disquieting is the revelation that Grady has not only failed to take remedial action on an audit conducted over two years ago but that it has kept the existence of the audit secret. I have been advised by Legislative Counsel that the report of this audit is subject to the Open Records Act, and I have asked Grady to provide me with a copy. I will be sure to advise you of Grady's response.

Very truly yours,

David J. Shafer
State Senator, District 48

DJS/ab

Enclosures

cc: Honorable Eric Johnson
Honorable Tommie Williams
Honorable Jack Hill
Honorable Judson Hill
Honorable Dan Moody
Honorable Jeff Mullis
Honorable Chip Pearson
Honorable Chip Rogers
Honorable Don Thomas

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William Loughrey

August 24, 2007

The Honorable David J. Shafer
State Senator, District 48
State Capitol, Room 421-F
Atlanta, Georgia 30334

Dear David:

I applaud your efforts to reform the Grady Health System. As we have discussed, an area that bears scrutiny is the relationship between Grady and the Emory and Morehouse Schools of Medicine. This contract gives Emory vast control over the day-to-day operations of Grady. Like the contract between Grady and Fulton and DeKalb counties, this contract expires in 2013, but there is an urgency and immediacy to these issues. Emory informed the Grady Board that it needs to make five year commitments to or contracts with certain interns and residents, so the real deadline may be as early as this coming year, 2008.

1. Analysis by Deloitte Consulting and Dr. Chris Edwards, vice chairman of the Grady Board and a renowned surgeon, found that Emory was under funding and understaffing profitable service lines such as cardiology and orthopedics that compete with Emory-owned hospitals, including Crawford Long. This analysis found that Grady could make millions of dollars by investing and staffing these service lines. Grady staff members have also expressed to me the concern about the systematic transfer of paying patients from Grady to Emory-owned hospitals, leaving Grady with an unsustainable patient mix dominated by indigent and other nonpaying patients.

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2. Since I began my service on the Board, I have demanded an audit of the relationship between Grady and Emory. As you are probably aware, the Board has been chaired by a representative from DeKalb County for the past fifteen years and Emory is the biggest employer in that county. The Board leadership refused to proceed with an audit for a number of years. Finally, an audit was commenced, under contract with a reputable accounting firm, I believe Cherry, Beckert, and Holland. The report to the Board found numerous problems with compliance with the contract, particularly with the requisite record keeping by Emory to document that their employees were providing the services for which Emory was being paid under the contract. Even though the Board took up this issue two years ago, it has yet to take remedial action or even release the report to the public. I was informed that the report was being kept secret at the insistence of Emory. Even more troubling is the fact that much of the proceeds of the proposed \$100,000,000 loan would be paid over to Emory for sums allegedly owed under this contract.

3. During my tenure on the Board, two faculty members or employees of Emory became whistleblowers, complaining about the lack of compliance with the contract on the part of Emory and the general inequities of the contract. Both of these individuals were fired. Large financial payments were subsequently made to each of these employees, but a key provision of each of these settlements was that there would be no public disclosure of the allegations in the dispute. I find this provision to be outrageous. There should be a requirement to have these files and proceedings made public. I believe that information in these files bear directly on the current public policy debate concerning the future of Grady. I note that Emory has had similar problems with a number of other members of its faculty, but the two Grady cases bear directly on the management of a public entity and the handling of public funds. There is no justification for keeping them under seal.

4. These allegations go to the core issue of the financial viability of the hospital. If Grady had a better case mix of patients, it would not be in financial difficulty. For example, in 2006 the interim CEO informed the Board that if Grady could increase its Medicare caseload from 17 to 30 percent, it could triple the reimbursement for interns and residents at the hospital. The director of the federal Medicaid and Medicare programs made similar representations to me. More Medicare patients and stronger service lines are crucial to the long term financial solvency of the hospital. This will not be a simple process, because, unlike most indigent care facilities, Grady has two strong competitors in Crawford Long and Atlanta

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Medical Center. Compounding matters further, as I mentioned above, Emory owns Crawford Long.

5. The Grady-Emory contract provides indemnification for Emory employees against legal liability. At one point, the cost of tort litigation to the hospital was \$15-20 million annually. State passed tort reform has reduced this cost to \$5-10 million annually, but the requirement that a public entity indemnify a private institution for malpractice by its employees is onerous and should be revisited.

6. Grady has been the subject of contracting abuses for decades. As you are aware, State Senator Charles Walker is currently serving a prison term, in part for his role in a contract with Grady for his temporary services employment firm. Deloitte Consulting found a number of contracting abuses and, even though the Grady Board implemented all of the other recommendations in the Deloitte report, it refused to address the contracting recommendations (my motion to do so failed by an 8-2 vote). While Dr. Andy Agwunobi moved to address these issues during his tenure as CEO at Grady (when he took the hospital from a \$40 million deficit in 2002 to a surplus in 2005), I believe that the contracting process is now reverting back to some of its bad practices. I am aware of at least two contracts that were agreed to that would have saved the hospital millions of dollars annually, but were never formally executed and implemented.

Thank you for your ongoing concern in these matters. Please let me know how I may be of future assistance in this matter.

My best,



Bill Loughrey

Trustee, Fulton-DeKalb Hospital Authority (Grady Health System), 1998 to 2007

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