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## Tulare Local Healthcare District

*Past Poor Decisions Contributed to the Closure of the Medical Center, and Licensing Issues May Delay Its Reopening*

### Background

After serving 170,000 residents of the city of Tulare and the surrounding areas for over 60 years, the Tulare Regional Medical Center (medical center)—operated by the Tulare Local Healthcare District (district)—closed in October 2017. Although historically the district’s board of directors (board) had hired a chief executive officer to manage its medical center operations, in 2013 the district contracted with the Healthcare Conglomerate Associates (HCCA) to manage the medical center. In September 2017, the district filed for Chapter 9 bankruptcy and the medical center closed the following month. Our audit focused on the district’s oversight of the medical center and HCCA and the steps to reopen the medical center.

### Key Recommendations

The district should perform the following:

- Establish formal procedures for adhering to and documenting a rigorous and appropriate evaluation and contract awarding process.
- Ensure that it pays only reasonable and appropriate contract administrative costs and should prepare estimates of the costs of proposed contract terms prior to signing any future contracts.
- Continue to address the necessary licensing requirements to ensure it can reopen by mid-October 2018 as it plans.

### Key Findings

- The board’s poor decision to contract with HCCA to manage the medical center contributed to serious financial difficulties, which led to bankruptcy and closure of the medical center.
  - » The board contracted with HCCA even though it was informed that HCCA was not the most qualified to manage the medical center.
  - » Certain terms in the contract restricted the board’s direct access to the medical center and its data systems and limited their ability to oversee the medical center’s operations and finances.
  - » Provisions in the contract required the district to “lease” the medical center’s staff from HCCA at a cost of 130 percent of the employees’ salaries.
  - » Under HCCA’s management, costs for professional fees and medical center’s staff increased while patient service revenue and patient volume declined.
  - » HCCA may have misappropriated public funds—more than \$400,000—when it inappropriately used district funds to pay some of the medical center’s staff to work at another medical center which HCCA also managed.
- The number of physicians significantly declined after board members voted to replace the medical center’s medical executive committee in 2016.
- Although the district has indicated it plans to reopen the medical center by October 15, 2018, it is unclear whether it will address all requirements to reopen by then.
  - » It had only partially completed many of its key requirements as of September 2018, including securing sufficient funding to cover repair costs should they exceed estimates.
  - » It filed and obtained an extension of its license suspension yet did not inform us.

### The Medical Center’s Operating Income Initially Improved Under HCCA, Until Expenditures Increased More Than Revenues

