New Evidence

D.C. General Shutdown Was Thoroughly Corrupt

by Edward Spannaus

New evidence has come to light documenting the criminal negligence and corruption involved in the privatization of health services in the District of Columbia two years ago. In April 2001, a cabal consisting of the *Washington Post,* D.C. Mayor Anthony Williams, and the D.C. Financial Control Board (which dictated the operation of District financial affairs on behalf of Wall Street banks and bondholders) forced through the privatization scheme and shutdown of the District's only public hospital, despite massive public opposition and the unanimous rejection of the plan by the elected D.C. Council.

Even before the deal was done, spokesmen for *EIR* and for Lyndon LaRouche warned that the entity being given the privatization contract, Doctors Community Healthcare Corporation (DCHC), and its financial partner, National Century Financial Enterprises (NCFE), had been investigated and sued for fraud and racketeering in a number of jurisdictions. They had been charged with looting hospitals and healthcare institutions, after capturing the income-stream of those institutions. (See "Alleged Racketeers in D.C. General Takeover," *EIR*, March 16, 2001.)

Council member David Catania also published a dossier on the shabby record of DCHC and National Century at the time. Catania also demanded, on behalf of the Council, that the Financial Control Board disclose the results of its "due diligence" financial investigation of DCHC, which was conducted by the accounting firm PriceWaterhouseCoopers. Claiming that the information was "confidential," the Control Board refused to release anything more than an executive summary.

LaRouche associate George Canning then sought the documents under the D.C. Freedom of Information Act (FOIA), filing a lawsuit when the District government refused to release them. On March 5, 2003, Federal District Judge Gladys Kessler ordered a partial disclosure of the secret report. In the course of her ruling, Judge Kessler stated: "As an initial matter, the Court cannot help noting that the financial position of Greater Southeast Community Hospital, and its relatively new owner, Doctors Community Healthcare Corp., are of extraordinary significance to the plight of poor people seeking medical care in the District of Columbia. Both these medical providers are now in bankruptcy, and in active litigation before the Bankruptcy Court. Resolution of the issues in the Bankruptcy Court will very probably affect the City's entire healthcare system. It may well be that if the documents being sought in this case had been released by the District of Columbia Government when they were first prepared in March and April, 2001, at a time when the Legislative and Executive Branches of the District of Columbia Government were weighing the wisdom of granting Greater Southeast the leading role in running the City's new privatized indigent care system, the citizens of the District of Columbia would not be in the dire straits they now find themselves in."

'High Risk Factors'

Although much of the documentation requested by Canning is still withheld under FOIA exemptions pertaining to sensitive financial information regarding Greater Southeast Community Hospital (GSCH) and its owner DCHC, the summary sections that have been disclosed are suggestive of the shady financial status of both entities.

One summary page pertaining to "Liquidity of GSCH" contains the following entries: "Highly leveraged entity" and "Unaudited financial statements," two items which should have been red flags signalling the potential for a financial collapse—of exactly the sort that did happen 20 months later.

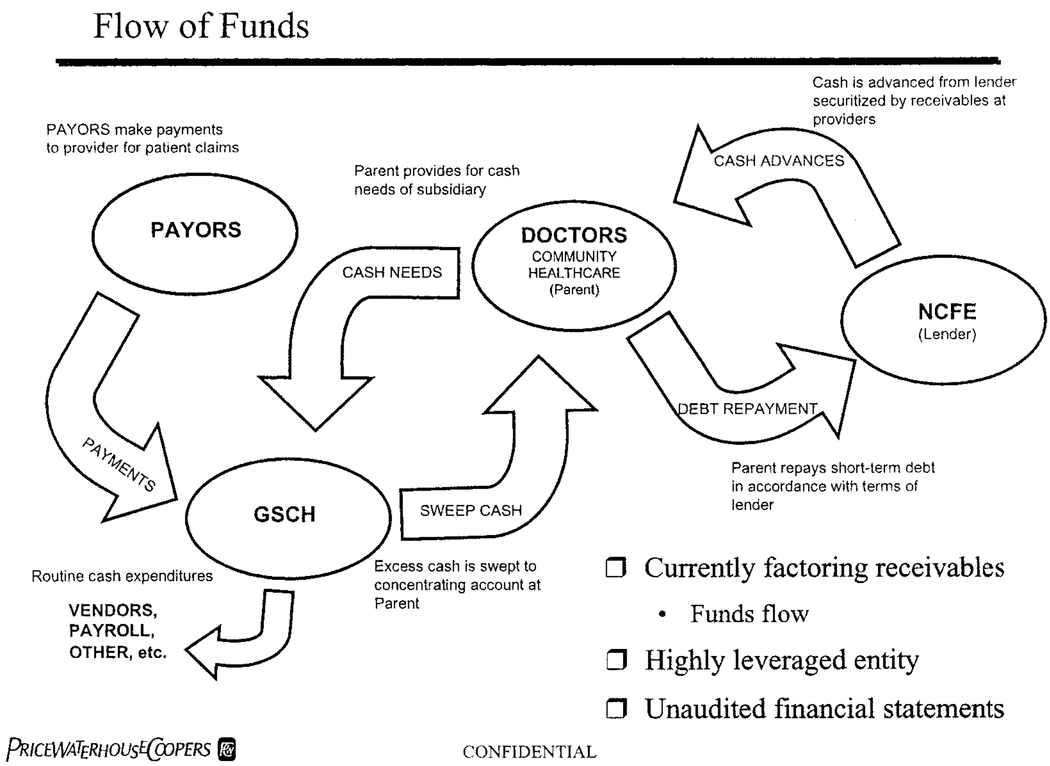
Another page entitled "Financial Risk Factors-Doctors Community Healthcare Corp." lists the following risk factors:

- No access to Doctors' financial statements
- Ability to meet debt requirement
- Ability to fund future capital requirements
- Current run rate is unknown
- Unknown operating cash needs at Doctors
- Unaudited financial statements

The complex financial relationship between Greater Southeast, DCHC, and NCFE was illustrated in a flow chart (see illustration). One relationship not shown in the chart, is that NCFE also owned 11.5% of the stock of DCHC. NCFE's mode of operation was to lend money against the accounts receivable of hospitals and healthcare facilities. NCFE then bundled the receivables and marketed them to bondholders as "asset-backed securities."

The current estimate, is that only about 30% of the $3.5 billion in bonds issued by NCFE is actually backed by the required collateral. Both Federal law enforcement agencies, and investigators hired by the bondholders, are now trying to determine where the money went. "I've been involved with some badly run businesses, some of which we've been able to recuperate, others which we've had to liquidate," said David Coles, a restructuring specialist appointed to manage NCFE after its bankruptcy filing, "but I've not had experience with a falsification of information component that compares to this."

Is there any wonder that PriceWaterhouseCooper and the Control Board were faced with "no access to [DCHC] financial statements," or that DCHC had only "unaudited financial statements"? The criminality of the Control Board and Mayor



The D.C. General Shutdown in 2001, fought by Lyndon LaRouche's movement, set off a spiral of unnecessary deaths and degraded healthcare for lower-income families. Documents now show the D.C. Financial Control Board knew that the private takeover hospital and its corporate owner were near bankrupt, and part of a money-chain for the notorious National Century Financial Enterprises (NCFE).

Williams (a major recipient of DCHC campaign contributions) lies in their covering this up, and then jamming the contract through, despite their knowledge of DCHC's shaky and dubious financial dealings.

It doesn't take too much imagination to figure out what would have been the public outcry, had this information been given to the Council and made public. It might have even given Congress—which has legal oversight and the final word on D.C. financial affairs and governance—the backbone to override the corrupt privatization contract.

The Road to Disaster

As it was, then-Senate Majority Leader Tom Daschle (D-S.D.) initially endorsed the call to save D.C. General, but, under the corrupt influence of the District's Congressional Delegate Eleanor Holmes Norton, and her aide Donna Brazile, he withdrew his support. Congress then capitulated to the shutdown of D.C. General—including its top-flight Level 1 Trauma Center and a state-of-the-art microbiology laboratory, which are sorely needed today. (Some of its facilities, such as its decontamination center, are now being replaced at Federal expense.)

The failure to act upon the information known to the Control Board two years ago, has had disastrous consequences for the District of Columbia. The shutdown of D.C. General resulted in the overwhelming of the emergency rooms of the other hospitals in the District, which had to provide services to many of the indigent, uninsured patients, previously served by D.C. General. Greater Southeast never met a number of its obligations under the 2001 contract, including the requirement that it establish a Level 1 trauma center equivalent to that which had existed at D.C. General. Many dozens of patients died, due to additional time required for ambulances to transport them to more distant hospitals—if the ambulance could find one whose Emergency Room wasn't on by-pass.

Then last June, Greater Southeast was downgraded by the national organization which accredits hospitals, after inspections had found numerous health and safety violations. The downgrading to "conditional status" potentially jeopardized its ability to collect reimbursements from private HMOs, and from the Federal Medicare and Medicaid programs.

On Nov. 18, 2002, NCFE filed for bankruptcy, two days after the FBI raided its Ohio offices amidst charges of fraud. Subsequently, it was disclosed that both the FBI and the Securities and Exchange Commission were conducting criminal investigations of National Century. On Nov. 20, DCHC and Greater Southeast went into bankruptcy court in Washington, D.C.

After Greater Southeast failed at least two inspections again, the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) issued a decision preliminarily denying accreditation to Greater Southeast. If Greater Southeast's appeal of the JCAHO decision is unsuccessful, it will be forced to close completely. This will compound the accelerating healthcare disaster in the nation's capital, which was triggered by the corrupt actions of the Financial Control Board headed by the Federal Reserve Board's Alice Rivlin.