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Riverdale Hospital: The Whistleblower in Pursuit of the Missing Money

Kate Hall and Claus Rerup wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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What would it take for you to speak up? Would you risk your career to recover AU$10,000? $20,000? $1,000,000?[[1]](#footnote-1) What about speaking up on behalf of others—particularly if you knew innocent people were being taken advantage of by your organization? Would you risk your livelihood to save theirs? These were the kinds of questions David Hart found himself asking after he discovered a string of inconsistencies in a donation fund at the hospital where he was employed.

Hart had been a doctor in the Department of Pediatrics at Riverdale Hospital, an Australian hospital that had close ties to the faculty of medicine at a leading university, for over 15 years. After completing his doctor of medicine (MD) degree in Australia, Hart had moved to New York, United States to engage in clinical training, but he had been eager to bring his clinical skills back to Australia. It was as a faculty member in the School of Medicine at Riverdale Hospital, where he was involved in both the research and practice of medicine, that Hart began to suspect that research funds he had secured for the university were being mismanaged. As he began to investigate the irregularities and to suspect a cover-up, Hart found himself at odds with other faculty members and the university administration. He had to ask himself some difficult questions: When should he speak up out of self-interest? When was he morally obligated to speak up? And how should he do it?

Riverdale Hospital

He was especially passionate about teaching the next generation of doctors and using his medical knowledge to contribute positively to society. When asked about his work in pediatrics and why he became involved in this field, Hart often responded that he “wanted to influence it politically for good.”

In his position, Hart reported directly to the chair of the department and indirectly to the dean of medicine and the president of Riverdale University (see Exhibit 1). The chair, Stephen Michaels, was known to have a cross and irritable temperament. Many of his peers had hesitations about him. However, Hart had always assumed that Michaels just had a rough exterior, and that this exterior hid an honest doctor looking to make positive contributions to the field.

The Greene Fund

Hart had a close relationship with a family in the city, the Greenes. He had provided medical care to the family for years, acting as the children’s surgeon and at one point saving their mother’s life. Hart’s exceptional service to the Greenes had prompted the family to contribute $380,000 per year to Hart’s research, beginning in 2005. Recognizing that this was more than he needed to pursue his research interests, Hart donated the proceeds to the Department of Pediatrics.

To his surprise, Hart discovered that he would not be able to directly control these funds because he was not a tenured member of the medical faculty. He discussed this with the chair of the department, who explained what Hart’s involvement would look like: Hart would deposit the money annually as a lump sum to the department chair, Michaels, who would control the funds under Hart’s supervision and with his knowledge. Specifically, Hart would be entitled to have access to all financial documentation at any time. Knowing that the agreement would be fully transparent, Hart felt comfortable donating the funds.

Hart made diligent use of the donation-funded research laboratory in the following years. Over time, he made himself known in the medical community, representing both himself and the laboratory that was supported by the funds he had personally secured. An especially notable project was his work with premature babies. He explained:

We developed the gold standard through about 15 years of research. To make a long story short, we were able to screen for a number of health problems that can arise in so-called “preemies.” Since the year 2005, we’ve now screened over 1 million babies, since we also have the means to treat them.

His work even extended across borders: Much of the fund’s money was used in work with the heads of universities in countries with less developed healthcare, to bring the “preemie” test model from Australia. Hart did this in the hopes of bridging gaps across countries through joint medical efforts.

The First Irregularity

Hart checked the ledger books semi-annually to ensure that all expenses were legitimate and that funds were being used according to his stipulations. Even though he was not in direct control of the funds, he was careful to do his due diligence so that he could be certain that the donations that meant so much to him were being managed responsibly. After all, this money was there because of the Greenes’ goodwill and generosity.

In addition to checking the ledger books, Hart liked to go through the invoices each year to double check which research topics were being pursued with his money, as this information sometimes became lost in the ledger book recordings. In December 2010, as he was going through a set of invoices, he came across something that caught him completely off guard: $37,206.98 had been paid to a hospital fellow without Hart’s knowledge or authorization.

Concerned, he brought it up with Michaels: “Stephen . . . what is this expense paid to Dr. Kim? . . . I never authorized this, and it was never mentioned to me. Is this a mistake?”

Michaels seemed surprised by it, too. He took the invoice from Hart and inspected it closely and silently. He concluded, “I don’t know what this is! It must have been a mistake. I will go and get Lisa to repay this immediately from the fund this should have been taken out of to begin with.”

The process was completed by the business officer, Lisa Alton, and an invoice was sent to the associates in the department as proof. All had been repaid and the fund’s books looked appropriate. Hart was relieved.

A few days later, Hart thought again about the exchange with Michaels. Despite having recovered the funds, Hart was feeling uneasy again. He wondered why Michaels had been so eager to pay the money back immediately, rather than explaining what might have happened. The money was disbursed by Michaels himself, so surely he must have known more than he told Hart. Was Hart overthinking this? Had it been a simple mistake, or did this represent some kind of wrongdoing? He wondered how this kind of expense could have occurred without someone noticing it before him. Throughout his career, Hart had simply assumed that everyone else was working hard and working honestly, just as he was. He had gone into medicine for the very purpose of helping people, and had just assumed others had done the same. Disillusioned, Hart remained suspicious of Michaels’s motives.

Business As Usual

In the following weeks, Michaels seemed friendly and conciliatory; he even apologized to Hart: “I’m sorry for my carelessness with the fund. It was an honest mistake, but that should not have come out of the fund money. I will be more cautious with my responsibilities with the fund in the future.” Hart was delighted that Michaels had owned up to his mistake. Part of him wondered why Michaels’s attitude had changed so abruptly, but he was mostly pleased that the chair seemed to want to get along with him. Once you got to know him, Michaels wasn’t so bad.

In June 2011, Hart was offered a new role as the pediatrician-in-chief at the hospital. This change would provide him with more authority than he had previously held and would increase his status at the hospital in the eyes of his peers. He was excited at the prospect, but also a bit concerned that the extra administrative responsibilities that might come with the promotion might distract him from continuing to have a meaningful effect on the medical community. He wondered whether or not to accept, but ultimately decided that the additional power and opportunities would allow him to be more effective in the long term.

It was true that the promotion came with a lot of extra responsibility. Hart was now required to be on call for longer hours, to ensure that patient documentation was collected accurately, and to oversee the administrative duties of other doctors. He had not realized how much more paperwork and information he would have access to in his new position. He had hoped he might be able to control his fund now that he had so much additional responsibility and access, but unfortunately, he still needed to be tenured before that was possible. Despite that disappointment and the extra work, he was pleased with his decision to take on the role. He felt more appreciated than ever at the university and hospital, and he was enjoying the impact he was having in his community.

The Second Irregularity

In July 2011, Hart started to notice that Michaels was increasingly quiet around him. Rather than being his audacious—and, at times, outright rude—self, Michaels was being uncharacteristically reserved. While he was a bit confused, Hart wrote it off. Perhaps Michaels was threatened or intimidated by his recent promotion.

One day, Hart had a particularly strange interaction with Michaels, who was walking down the hall of the department with the ledger books for the fund. Since it was around the time that Hart generally looked at the records for the fund (about six months since he had last checked), he asked Michaels for the books so that he could give them his usual “once-over.” Even though he could still not directly control the donation fund, Hart had remained diligent about checking the ledger books. When he asked to see the books, it seemed that Michaels had not heard him; he kept his head down and continued walking. This was puzzling. Hart was certain the chair had heard his request. Was he still angry about Hart’s new role?

A few days later, Hart approached Michaels again and was able to do his check. As usual, he checked only the current period’s record, and as usual, everything looked good. However, Michaels’s behaviour earlier that week was still troubling him. He thought again about how Michaels had not wanted him to see the books. Fed up with all of the questions running through his head, he asked the executive assistant, Sean Graham, for the balance in the donation fund. He wanted to know what was going on, once and for all.

Hart was shocked to find that the fund looked nothing like it had last time he checked. In fact, there was a $350,000 deficit. This was especially troubling since Hart had deposited the annual donation of $380,000 the preceding month. His mind immediately flashed back to the expense he had discovered just half a year earlier. Was this another mistake? Was this purposeful?

Just a few months earlier, he had been convinced that the money was being taken care of. The ledger books all looked appropriate, and whenever he spoke to Michaels about the fund, he seemed to have it all under control. Now, Hart remembered how Michaels had acted when he had discovered the first irregularity. His initial skepticism returned, and he started to reconsider Michaels’s trustworthiness. He wondered what the real story was, because now, he was having a hard time believing it was what Michaels was telling the rest of the department. For years, Hart had believed one story. But now, that no longer seemed to be adding up.

In disbelief, Hart asked Graham, “Well, how’s that possible?”

Graham turned to him and said, “If you’re going to look into this, you had better look in the mirror and decide who you are. You’re going to have to realize it’s going to be like peeling back the skin on an onion.”

Hart felt his heart sink. His doubts were being confirmed, but he still did not know the full story. Ironically, each discovery left him feeling he was further from knowing the truth. He worried about what else he might discover—whether the use of his fund in the last decade had been a lie. He wondered if, during that time, he had been naïve or careless to so readily believe that all was as it should be, when perhaps there had been something more going on right under his nose.

David Hart Steps Up

While Hart had seen a portion of the books and had reason to believe that the funds had been genuinely misused, he still did not have any hard evidence, nor did he know for certain how events had unfolded. What he knew so far was that the fund was in a deficit, that Michaels was behaving inconsistently, and that funds had previously been misused to pay a fellow without permission. Hart thought this evidence almost certainly suggested that Michaels was intentionally misusing funds, but he still did not know precisely what had happened. Without hard evidence, Hart was nervous about confronting Michaels and hoping for a confession. What if he was wrong?

Hart feared that he might be seen as an accomplice if the deficit was the result of fiscal misconduct, and this prompted him to momentarily put his hesitations aside. He scheduled a meeting with Michaels for July 30, 2011, to discuss the fund. In attendance were Hart, Michaels, and Alton. Hart planned to use his new privileges and power as pediatrician-in-chief to threaten Michaels. Luckily, Michaels did not fully understand Hart’s new role, and Hart intended to leverage that fact to make Michaels believe he had more power than he really had.

Hart began the meeting forcefully: “I have documentation to prove it all—photocopies of the real books versus the phony ones you were giving me—and as the new chief, it is my responsibility to discuss this with the other doctors, which means this will undoubtedly get out to press, donors, and colleagues.”

“I don’t know what you are referring to. . . . I’ve only ever used the fund in the ways we have discussed,” replied Michaels.

Hart had a hunch that Michaels was lying, but as he was not confident enough in his financial knowledge to ascertain how the fund was truly being used, he continued to probe: “The only problem is, I don’t know how much damage was done, and it would be better if I know what actually happened than if I let my imagination run wild.”

Michaels was visibly nervous, and a tense silence followed. Finally, Michaels admitted that he had been using the funds without Hart’s approval. “You’re right,” he said. “You already know I’ve been creating a slush fund with the donations, don’t you?”

Alton was bold enough to summarize the meeting’s events in a memo, addressed “to whom it may concern,” which read as follows:

After this meeting in the A.V. Room, in which David confronted the Chairman, Stephen Michaels, with proof of misuse of Greene Funds and Stephen Michaels subsequently admitted to “wrongdoing” and abuse of the fiduciary trust placed in him, Dr. Stephen Michaels seemed humbled, embarrassed, and recalcitrant. He was a “grey” colour.

After David left, I was still shocked at the revelations and tidied up the coffee cups and plates. Dr. Michaels “recovered” his normal demeanour. He commented to me, in a threatening manner, that he’d see to it that the Department of Pediatrics would get cuts in the number of fellows and he’d reduce the number of residents. Amy’s description of him was apt—she described him as a viper. How true!

Despite Michaels’s return to his normal demeanour in the meeting, he subsequently wrote a memo addressed to Hart where he admitted to his misuse of the fund:

The Greene Fund has thus been used as a clearing fund in addition to a much appreciated direct source of funding.

I am deeply upset by the problems that have been raised here and clearly will work every way in my power to rectify the concerns of the foundation members and their agent, yourself. Whatever errors there are, clearly I must take responsibility.

You have been working intensely in this matter for a month and I apologise that I have been responsible for the tremendous, unexpected use of time and energy that this has necessitated.

Even though Hart had suspected what was going on, he was still shocked to hear it all come out. Despite Michaels’s pleas, Hart knew he had to pursue justice.

The Cover-Up

“There is no doubt in my mind I have to speak up, but I know nothing,” Hart thought to himself as he considered how to bring the issue with Michaels and the Greene Fund to the attention of institutional leaders. He was aware of multiple factors that put him at a disadvantage. For example, Michaels was well-known in the medical community; by virtue of his position as the department chair, he also had relationships with the dean and the president of the university. Hart expected that launching an investigation would rock the boat. Further, who exactly in the Department of Pediatrics and the wider university community had benefitted from the misuse of “his” fund? Who would these beneficiaries support? Would they be inclined to speak up, or would they remain silent? What did they know, and at what time?

He decided to approach the dean and president directly, telling them what had gone on and even showing them the memo that Michaels had produced. Protocol dictated that the hospital had to follow up with an external audit if anyone brought up concerns over a misuse of funds, but Hart expected that he would be resented for bringing this up.

This resentment surfaced in the Department of Pediatrics not long after. One particularly difficult event for Hart was a faculty meeting where he found himself painted as the villain looking to dethrone Michaels and realized he had alienated many of the faculty. The tension and disrespect reached such a level that, at a meeting in January 2012, several members of the department called for Hart’s resignation. In response, Hart wrote a letter to the dean who had chaired the meeting. More than anything, this meeting had increased Hart’s motivation to continue pursuing the missing money, and he told the faculty dean exactly that in his memo:

I am writing in the aftermath of the events of last evening’s Executive Committee Meeting of the Department of Pediatrics at Riverdale University.

With my fiduciary responsibility and accountability as the sole authorizing agent for the Greene Family Foundation, I felt it obligatory to raise the concerns, which I did, about issues [that] still remain.

I was disturbed and embarrassed for the department by the unrestrained attack upon me by certain members of our university. I was selected for my academic role as Pediatrician-In-Chief at Riverdale Hospital on the basis of my credentials. In that capacity, I have the full support of my own hospital department and, I dare say, a considerable fraction of the total department within the University. I will continue to serve accordingly.

Audits surfaced not long after this meeting confirming that funds had been paid out that should not have been. However, the funds mentioned in the audit amounted to only $95,730 rather than to the amount Hart and the fund had been claiming: at least $861,570. Hart still was not satisfied.

By mid-2012 he had been feeling mounting tension within the city’s medical community. He realized that Michaels had secured the loyalty of all of the other hospital chiefs, as he had been buying their allegiance with gifts and trips. He worried that disgruntled friends of Michaels were aware of his moves to investigate, and he was starting to feel unsafe. He approached the police to seek guidance on how he should move forward. He expected that they would help him in terms of personal security, but he had not expected the police to help him as he developed a strategy for pursuing the money. He weighed the possibilities with them: Was there enough proof to lay criminal charges? What were the positive and negative implications of pursuing criminal charges rather than settling this outside of court? What were the legalities around kiting—the activity he believed Michaels was engaging in? What would the payoff look like in different circumstances—that is, when would it make sense to keep pursuing this uphill battle, and when would it not make sense?

These conversations prompted Hart to learn more. He took it upon himself to read the ancient military treatise *The Art of War*, written by Chinese strategist Sun Tzu.[[2]](#footnote-2) The text helped him think about his strategy in a more concrete way (see Exhibit 2). It touched upon the five fundamental factors that determined a military engagement’s chance of success or failure, including terrain, seasons, and leadership. He thought that these factors were at play in his world, too: the terrain was the hospital system, the seasons were the waves of backlash and support, and he would need to be the leader. He wondered about his chance of success, given the bleak situation. He also learned about the difference between strategy and tactics and the importance of alignment across factors, and he studied how to gather and manage intelligence. What before had been an abstract ideal—standing up for morality—became a systematic strategy.

In October 2012, Hart’s fund was offered $1.9 million as a repayment. Hart took the funds and immediately paid them back into medical activities at the hospital, yet he knew there was still more missing money. He thought about cutting his losses. Perhaps continuing after this was just a losing battle.

Despite hard evidence (Michaels’s letter) confirming Michaels’s guilt, the dean refused to formally acknowledge the wrongdoing. In a letter to the fund donors on December 8, 2012, the dean stated that the external audit was biased:

It has become clear to me that this external review is flawed and contains statements and associated comments which are unfounded and which are unfair towards Riverdale Hospital and its Department of Pediatrics.

The university further rejects the external review because of its unfairness in that it singles out the Riverdale Hospital, the Riverdale Hospital pediatrics faculty and the Pediatrician-in-Chief of Riverdale Hospital.

When he saw the letter, Hart was livid. His motivation, which had been dwindling, was suddenly renewed: he knew it was important to go after the money rather than the person. It was a question of morality. He knew what he had to do.

Hart continued to investigate Michaels’s billings, following invoices going back to the beginning of the fund. He knew his own word was nothing against Michaels’s, so it was crucial to collect proof. For five years, Hart collected volumes of documents and correspondence around the scandal. In addition to collecting financial and other documents, Hart spoke with medical students, fellows, and residents in hopes of gathering more information about Michaels. The process started to take a toll on him as well as on his family. He received several death threats, and the police began to station themselves outside his house to ensure that all was well. Hart’s wife, Laura, managed endless phone calls from the police, hospital staff, and university faculty. Despite it all, they persevered. Hart’s mantra, “Always moving forward,” became increasingly important for them during these difficult years.

Unfortunately, in September 2018, the president circulated an external audit that claimed that there was no wrongdoing on Michaels’s part. Although Hart had been dealing with the stress and pushback of being a whistle-blower for years, he was still shocked. He reasoned that this move by the president was yet another attempt to turn the city’s medical community against him. He was starting to feel hopeless.

What should David Hart do?

Hart was stressed out and exhausted, and he felt continually attacked by the people he thought he should be able to count on. The institution seemed to be working against him, and his cause felt frankly hopeless. Nonetheless, he knew he still wanted to act. He had come this far, and he knew fighting the corruption he saw right in front of him was the right thing to do. He considered taking the claims to court. After all, he had a clear admission of guilt from Michaels himself. He wondered whether civil or criminal charges were what he wanted, though. Perhaps professional charges would be more effective, since these could ruin Michaels’s career. Hart wondered whether he could simply leave the institution and take the donations with him. He would lose all the funds that had been stolen beyond the $1.9 million he had already received in repayment; but at least, this way, he could keep doing his work. He considered the final option: just staying and dealing with the consequences. After all, these things happened in big institutions, and somebody else was bound to act eventually.

What should he do?

Exhibit 1: University Organizational Chart



Source: Created by case authors.

Exhibit 2: Excerpts from *The Art of War*

All warfare is based on deception. (66)

Hence what is essential in war is victory, not prolonged operations. (76)

He who knows when he can fight and when he cannot will be victorious. (82)

Therefore I say: ‘Know the enemy and know yourself; in a hundred battles you will never be in peril’. (84)

Order or disorder depends on organization; courage or cowardice on circumstances; strength or weakness on dispositions. (93)

It is according to the shapes that I lay the plans for victory, but the multitude does not comprehend this. Although everyone can see the outward aspects, none understands the way in which I have created victory. (100)

Source: Samuel. B. Griffith, *The Art of War by Sun Tzu* (Oxford University Press, 1971).

1. All dollar amounts are in Australian dollars, unless otherwise specified; AU$ 1.41 = US$1.00 as of October 3, 2018. [↑](#footnote-ref-1)
2. The book was summarized online at Mark Cartwright, “The Art of War,” Ancient History Encyclopedia, July 18, 2017, accessed October 3, 2018, www.ancient.eu/The\_Art\_of\_War/. [↑](#footnote-ref-2)