THE BANKRUPTCY OF ALLEGHENY HEALTH, EDUCATION, AND RESEARCH FOUNDATION (AHERF)[16]

In July 1998, AHERF filed for bankruptcy, thus becoming the largest non-profit health-care bankruptcy in history with over $1.3 billion in debt and 65,000 creditors. Further, in June 1999, the AHERF's officers and directors were sued for $1 billion in damages for breech of fiduciary duty, gross negligence, and management and corporate waste.

As background, AHERF was formed as a non-profit corporation in 1983 with a single, prosperous hospital, Allegheny General Hospital. In 1986, AHERF had $274 million in assets, revenues of $195 million, and 4000 employees. By 1997, the organization had grown (almost exclusively by acquisition) to $2.20 billion in assets, $2.05 billion in revenues, and 31,000 employees.

Sherif Abdelhak, hired as chief executive officer in 1986, orchestrated the organization's aggressive acquisition program, growth, and ultimate demise. Ultimately, the AHERF board of directors fired Abdelhak in June 1998 for hiding cash transfers used to cover up the financial problems of AHERF.

Below are several descriptions of AHERF's board practices:

1. AHERF's business and acquisition strategy appears to have been based on a flawed vision, one that the board should have challenged but did not. Board members were discouraged from asking "tough questions;" those who did question AHERF's plans were either pressured to conform, or found themselves subject to term limitations and removed from the board.
2. The board was dominated by an alliance between the chief executive officer and the board chairperson. Board meetings were "scripted affairs, intentionally staged to limit oversight and participation."[16] Board members received large stacks of reports and information of up to 1000 pages, with minimal time to review them, and often the information was not reviewed.
3. Acquisitions were completed without proper due diligence, and sometimes even without the approval of the board. In numerous instances, failing organizations were acquired with no turnaround plan or subsequent monitoring to evaluate improvement in operating performance.
4. The organization had a network of ten different boards responsible for its various operations and a large parent board varying in size from 25 to 35 members. No one seemed to have access to a complete overview of the organization, or specific accountabilities for it. Moreover, until 1998 AHERF did not prepare a consolidated financial statement reporting a complete picture of the entire operation.
5. Board membership was viewed as a "social activity or community service" rather than as a fiduciary duty.
6. Board members consisted of leaders in the community with numerous apparent conflicts of interest. For example, five AHERF board members were from the organization's lender, which completed transactions without board approval.

Failures of accountability and oversight extended even beyond these listed items, to include relationships with external auditors and bond-rating agencies and bond insurers, as well as a lack of oversight by the state attorney general's office.

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