

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Public Hospital District No. 1 of  
Snohomish County  
(Valley General Hospital)**

Report Date  
**January 22, 2014**

**Report No. 1011236**

Issue Date  
**February 6, 2014**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

February 6, 2014

Board of Commissioners  
Valley General Hospital  
Monroe, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on the Valley General Hospital's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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Snohomish County  
January 22, 2014**

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# Audit Summary

## Valley General Hospital Snohomish County January 22, 2014

### ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of the Valley General Hospital from January 1, 2012 through December 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Financial condition
- Payroll
- Disbursements
- Cash receipting
- Accounts receivable

### ***RESULTS***

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, we identified a condition significant enough to report as a finding:

- The District's financial position continues to place it at risk of not meeting its financial obligations or providing services at current levels.

We also noted certain matters that we communicated to District management. We appreciate the District's commitment to resolving those matters.

## Related Reports

**Valley General Hospital  
Snohomish County  
January 22, 2014**

### ***FINANCIAL***

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available from the District. The firm reported a significant deficiency in internal controls over financial reporting regarding the reconciliation of certain balance sheet accounts including inventory, bad debt allowance, and property taxes receivable.

The firm's report included an emphasis of matter paragraph stating the District has suffered recurring losses from operations, declining cash balances, and a deteriorating net asset position that raise substantial doubt about its ability to continue as a going concern. The firm's opinion on the fair presentation of the financial statements was not modified with respect to this matter.

# Description of the District

## Valley General Hospital Snohomish County January 22, 2014

### ***ABOUT THE DISTRICT***

Snohomish County Public Hospital District No. 1, doing business as Valley General Hospital, operates a hospital and other health care facilities for residents in Monroe and surrounding communities in Snohomish County. The District's primary operations include Valley General Hospital and Valley General Behavioral Health Programs. The hospital and behavioral health programs are licensed for 72 acute care beds and 40 residential treatment facility beds.

An elected, three-member Board of Commissioners governs the District. Board Members serve staggered, six-year terms. The Board appoints management to oversee the District's daily operations as well as its approximately 390 employees. In 2012 the District had operating expenditures of \$43,972,443.

### ***ELECTED OFFICIALS***

These officials served during the audit period:

Board of Commissioners:	Alice Cabe
	Neil Watkins
	John Hinchcliffe

### ***APPOINTED OFFICIALS***

Chief Executive Officer	Mike Liepman (through April 2012)
Interim Chief Executive Officer	Michael Fraser (through December 2012)
Chief Executive Officer	Eric Jensen (effective January 2013)
Chief Financial Officer	Edward Gasparovic

### ***DISTRICT CONTACT INFORMATION***

Address: Valley General Hospital  
P.O. Box 646  
Monroe, WA 98272-0646

Phone: (360) 794-1447

Website: [www.valleygeneral.org](http://www.valleygeneral.org)

## ***AUDIT HISTORY***

We began auditing the District annually in 2011. Previously, we audited the District biennially. The 2007-2008 audit reported a finding regarding credit card expenditures. This finding has been resolved. In the 2011 audit, we reported two findings. The finding regarding the District's financial condition has not been resolved. The finding regarding financial operations of the District has been resolved.

# Schedule of Audit Findings and Responses

## Valley General Hospital Snohomish County January 22, 2014

1. **The District's financial position continues to place it at risk of not meeting its financial obligations or providing services at current levels.**

### **Description of Condition**

The District's financial position continues to decline. The District has reported operating losses for the past five years. The District's net position has declined in four of the last five years, as shown in the table below.

	2008	2009	2010	2011	2012
Operating Revenues	\$45,943,219	\$47,674,785	\$48,477,367	\$45,213,389	\$39,416,032
Operating Expenditures	\$46,902,940	\$50,109,593	\$51,570,411	\$49,699,609	\$43,972,443
Operating Income/(Loss)	(\$959,721)	(\$2,434,808)	(\$3,093,044)	(\$4,486,220)	(\$4,556,411)
Net Nonoperating Income/(Loss)	\$985,301	(\$767,483)	\$67,164	\$197,117	\$127,653
Change in Net Position	\$25,580	(\$3,202,291)	(\$3,025,880)	(\$4,289,103)	(\$4,428,758)

As the District's financial position continues to decline, so has the District's available cash, as shown in the table below.

	2008	2009	2010	2011	2012
Cash	\$5,689,940	\$7,170,879	\$3,939,881	\$2,774,292	\$2,377,478

The District's financial data shows a net loss of \$4,357,353 and available cash of \$1,255,875 as of September 2013. The cash on hand is only sufficient to cover average operating expenses for 12 days. In October 2013, the District had to draw \$500,000 on its line of credit in order to ensure it had sufficient cash to meet its obligations.

The District is aware of its declining financial condition and has taken the following steps:

- Entered into an affiliation agreement with King County Public Hospital District No. 2 (Evergreen Health) in December 2012. The agreement provides Valley General with access to Evergreen's services and expertise. Valley General will continue to be an independent, separately-governed public hospital district with full responsibility for its own financial performance and operations.



- Developed a turnaround plan to monitor cost savings achieved by the District and the impact of initiatives undertaken by the District.
- Passed a permanent levy increase in 2013, which will increase tax revenue in excess of \$2.4 million beginning in 2014.
- Subleased District clinical space to Evergreen Health in April 2013. Evergreen prepaid the rent for five years for \$1 million. The District continues to look for ways that it can leverage its relationship with Evergreen Health to improve its financial position.

### **Cause of Condition**

The District has not sufficiently decreased expenses in relation to the decrease in revenues. Further, the District has experienced a large amount of turnover resulting in an increase in expenditures to fill key positions.

### **Effect of Condition**

Although the District has taken steps to improve its financial condition, its financial health continues to decline. The District may not be able to continue operations at current service levels.

### **Recommendation**

We recommend the District continue to assess financial operations and make necessary cuts to expenditures and/or services. The District should closely monitor and evaluate the District's financial activities to ensure its turnaround plan is being followed and the desired results achieved. The District should revise the plan as needed.

### **District's Response**

*The board and management of the District will continue to address the financial condition of the hospital to ensure its ability to continue operations. In addition to the permanent staffing of the Chief Executive Officer and the Chief Clinical Officer, a permanent Chief Financial Officer was hired in September 2013, a permanent Controller was hired in October 2013 and a permanent staff accountant was hired in November 2013. This will provide additional stability and reduction in interim staffing expenses.*

*The Chief Executive Officer has implemented a Phase I and Phase II comprehensive turnaround plan which includes many expense reductions and increased revenue and growth opportunities starting in 2013 which will continue in the future years. The impact of the expense reductions and revenue enhancements for 2013 are estimated at \$1,916,000. The turnaround plan and ongoing updates are presented to the Board for their review as they continue to monitor the progress towards those goals.*

*Additionally, the District constituents approved a maintenance and operations levy increase that will result in an additional \$2.4 million in funds for the hospital starting in 2014.*

*The SEIU voted and approved to extend the contract concessions that had been agreed to in 2012 for an additional 12 month period. This will be in addition to the expense reductions already realized for the hospital.*

*The District continues to look for opportunities to expand services offered in the community. Currently the District is in the process of reinstituting a program that had been previously closed for Chemically Using Pregnant Women (CUPW). This service is estimated to increase the monthly revenue by approximately \$30,000.*

*The District continues to engage in process improvement activities to improve efficiencies, provide quality care and increase patient satisfaction. Through these efforts, we feel confident that there will be improvement in the financial condition of the hospital going forward.*

*The District is currently conducting a charge capture audit and will be providing education and training with the staff to ensure we are capturing all revenues. We anticipate this will help reduce lost revenues and increase reimbursements. Additionally, we are engaging with an underpayment review company on a consignment basis to review closed accounts for underpayments based on insurance contracts.*

### **Auditor's Remarks**

We appreciate the District's commitment to monitor its financial condition and thank the District for its cooperation and assistance during the audit. We will review the District's financial condition during the next audit.

# Status of Prior Audit Findings

## Valley General Hospital Snohomish County January 22, 2014

The status of findings contained in the prior years' audit reports of the Valley General Hospital is provided below:

1. **The District's financial position places it at risk of not meeting its financial obligations or providing services at current levels.**

Report No. 1009414, dated April 1, 2013

### **Background**

The District has experienced operating losses for the past five years. The District's net position has declined in four of the last five years. The District's cash position continues to decline as well. As of October 2012, the cash on hand was sufficient to cover operating expenses for 24 days.

### **Status**

The District's financial condition has continued to decline during 2012 and is discussed in Finding 1.

2. **The District does not have adequate oversight of financial operations to safeguard public resources.**

Report No. 1009414, dated April 1, 2013

### **Background**

The Board of Commissioners and management had not developed processes to adequately monitor and manage the District's financial operations over accounts receivable, disbursements, payroll, and cash receipting.

### **Status**

The District has made some improvements in its internal controls over financial operations. The finding has been partially resolved and the remaining issues have been communicated to management.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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