



# Washington State Auditor's Office

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## Accountability Audit Report Public Hospital District No 2 of Snohomish County (Verdant Health Commission)

For the period January 1, 2013 through December 31, 2014

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## Washington State Auditor's Office

February 29, 2016

Board of Commissioners  
Verdant Health Commission  
Lynnwood, Washington

### Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for District operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our report on the District's compliance and safeguarding of public resources. Our independent audit report describes the overall results and conclusions for areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Troy X. Kelley".

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

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## AUDIT SUMMARY

### Results in brief

In most areas we audited, District operations complied with applicable requirements and provided adequate safeguarding of public resources. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

However, we identified areas in which the District could make improvements.

We recommended the District work with its legal counsel or other resources available to individually evaluate all current and future program investments to ensure public resources are expended only on facilities or services that are within its authority allowed by state law (RCW 70.44).

These recommendations were included in our report as a finding.

### About the audit

This report contains the results of our independent accountability audit of the Verdant Health Commission from January 1, 2013 through December 31, 2014.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

Our audit involved performing procedures to obtain evidence about the District's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

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 fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Self-insurance
- Community programs
- Procurement and bid laws
- Financial condition
- Payroll
- Financial statement audit workpaper review

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### 2014-001 The District does not have authority to invest in recreational programs and facilities.

#### *Background*

The Verdant Health Commission (the District) began partnering with other local governments to support community programs with grants in 2011. The District supports programs lead by other entities if grant requestors are able to reasonably project that there will be a positive effect on the general health of those who participate in the programs.

From 2011 through 2014 the District had the following program activity (approximated):

Year	2011	2012	2013	2014
Number of Programs	10	30	55	65
Program expenditures	\$300,000	\$1,900,000	\$3,100,000	\$4,700,000

In 2014, the District committed more than \$4 million to fund portions of four projects as part of its new Building Healthier Communities initiative.

In 2014, the main projects were as follows:

- Woodway Recreation Project - \$2.5 million for the construction of recreational fields and facilities in participation with Edmonds School District No. 15
- Bike2Health - \$1.9 million for the construction of bicycle lanes and bicycle trails as well as signage for the trails in participation with the City of Lynnwood
- City of Brier Walking Path - \$90,345 for the construction of a walking path around a park in participation with the City of Brier
- Fitness Room Upgrades - \$39,513 for the purchase of exercise equipment for a fitness room in participation with the City of Edmonds

### ***Description of Condition***

The District is a public hospital district formed under Revised Code of Washington (RCW) 70.44. These statutes grant hospital districts the authority “to own and operate hospitals and other health care facilities and to provide hospital services and other health care services for the residents of such districts and other persons.” The District is funded through lease revenues with Swedish Hospital and by Operating and Maintenance levies.

For the programs and projects identified above, our audit found the District exceeded its authority by contributing funds for purchasing items for recreational use and constructing recreational infrastructure that do not provide hospital or health care services.

In December of 2015, the District engaged with a firm to investigate property targeted for purchase to build an indoor recreational facility. We found the District’s intent to build this facility will also fall outside the authority granted to hospital districts.

### ***Cause of Condition***

District officials and staff believed such programs contributed to the general health and wellness of the community and that such interpretation fell within the definition of health care services, provided by state law (RCW 70.44.007).

### ***Effect of Condition***

Without the authority to support such programs, the District spent and pledged public funds in a manner inconsistent with state law. Due to the District’s broad interpretation of health care facilities (RCW 70.44.007(1)) and health care services (RCW 70.44.007(2)), the programs do not match the intent nor the character of the state law; therefore, these programs exceed the authority granted to hospital districts.

### ***Recommendation***

We recommend the District work with its legal counsel or other resources available to individually evaluate all current and future program investments to ensure public resources are expended only on facilities or services that are within its authority allowed by state law (RCW 70.44).

## ***District's Response***

*Although the Verdant Health Commission (the District) respects and appreciates the opinion of the Washington State Auditor's Office, the District believes that it acted within the authority of a public hospital district and in the best interest of its residents.*

*The public hospital district statute (chapter 70.44 RCW), grants a public hospital district the authority to determine the health care needs of its residents and the authority to determine what services it should provide to address those needs. The public hospital district statute further grants a district authority to provide a broad range of health care services, which expressly include health maintenance services and other services appropriate to the health needs of district residents. Public hospital districts have express statutory authority to provide health care services not only directly by owning and operating facilities, but also indirectly through contracts with other organizations.*

*The District has determined, based on its community health needs assessment in 2013 and health assessments conducted by Snohomish County and other parties, that youth and adult obesity is a significant health need in our community. This determination is consistent with state and federal health planning and statistical data. Survey data from the Washington Department of Health suggests that nearly 80% of Washington State adults do not meet recommendations for physical activity and 26.5% are considered obese. The obesity rate in Washington State increased nearly 8% between 2000 and 2011. One strategy for combatting this obesity epidemic and improving the overall health of district residents is to increase access to exercise and recreational opportunities.*

*Objective C of the United States Department of Health and Human Services' strategic plan recognizes that programs supporting exercise and physical activity are fundamental to achieving a health care system that provides better health and lower costs. While the Objective sets forth a number of strategies designed to emphasize disease prevention, it specifically notes the importance of "provid[ing] states and communities the resources they need to promote healthy living." Evidencing how fundamental supporting physical activity is to disease prevention, the Department's goal to "increase the proportion of adults (ages 18 and older) that engage in leisure-time physical activity" is one of only two performance goals set under the Objective.*

*The 2014 Washington State Health Care Innovation Plan (the Innovation Plan) also recognizes the importance of promoting physical activity to better population health. One of the plan's guiding principles is to encourage individual*

*responsibility for maintaining and improving health, and the plan recognizes that leading a healthy lifestyle greatly reduces a person's chance of developing disease. In support of this principle, the plan emphasizes the need to help individuals and families make healthy lifestyle choices "by supporting communities in developing healthy social and physical environments."*

*In conducting its health needs assessment, the District applied the Health Impact Pyramid that illustrates interventions for health improvement. This framework was published in the American Journal of Public Health "Framework for Public Health Action: The Health Impact Pyramid," April 2010. This framework has been widely adopted by public health practitioners and is supported by research. The health impact pyramid shows that the largest improvements in population health are accomplished at the base of the pyramid, and include socioeconomic factors and the context in which people live. The Building Healthy Community programs are aimed squarely in the "Changing the Context to Make Individuals' Default Decisions Healthy" tier of the pyramid. The long-lasting and powerful impact of changing the community context is exactly why the District has opted to support programs that improve the communities in which our residents live.*

*The District will continue to work with its legal counsel and other available resources to evaluate current and future program investments to ensure public resources are expended on facilities and services that are within the authority allowed by state law.*

### ***Auditor's Remarks***

We appreciate the District's commitment to providing programs designed to improve public health and its openness in sharing information related to the development of these programs as they pertain to the statutory authority granted to hospital districts. While we recognize the value that these programs bring to the community, our review was limited to whether the District is given the authority under state law to offer such services.

We will follow-up on the District's efforts to ensure public resources are expended on facilities and services that are within the authority allowed by state law during our next regularly scheduled audit.

## ***Applicable Laws and Regulations***

### **RCW 70.44.003 Purpose.**

The purpose of chapter 70.44 RCW is to authorize the establishment of public hospital districts to own and operate hospitals and other health care facilities and to provide hospital services and other health care services for the residents of such districts and other persons.

### **RCW 70.44.007 Definitions.**

As used in this chapter, the following words have the meanings indicated:

- (1) "Other health care facilities" means nursing home, extended care, long-term care, outpatient and rehabilitative facilities, ambulances, and such other facilities as are appropriate to the health needs of the population served.
- (2) "Other health care services" means nursing home, extended care, long-term care, outpatient, rehabilitative, health maintenance, and ambulance services and such other services as are appropriate to the health needs of the population served.
- (3) "Public hospital district" or "district" means public health care service district.

## RELATED REPORTS

### **Financial**

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available from the District.

## INFORMATION ABOUT THE DISTRICT

Public Hospital District No. 2 of Snohomish County, doing business as Verdant Health Commission, serves citizens in south Snohomish County. On September 1, 2010, the District entered into a lease and operating agreement with Swedish Health Services. Swedish now operates the acute-care hospital with 217 licensed beds, two primary care clinics and a retail pharmacy.

The District formed the Verdant Health Commission to work with the community to provide complementary health services and funding for priority healthcare needs within the District's service area. In January 2015, Verdant opened a Community Health & Wellness Center to serve residents of the District. All programming is free or low-cost to residents and supports healthy lifestyle choices.

An elected, five-member Board of Commissioners governs the District. Commissioners serve staggered, six-year terms. The Board appoints a Superintendent to oversee the District's daily operations and its five employees. For fiscal year 2013 and 2014, the District operated on an annual budget of approximately of \$8.6 million and \$9.8 million, respectively.

### Contact information related to this report

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*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the Verdant Health Commission at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

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 to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

### Contact information for the State Auditor's Office

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