

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

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**Whidbey Island Public Hospital District**  
**(Whidbey General Hospital)**  
**Island County**

Report Date  
**January 20, 2005**

**Report No. 68698**

Issue Date  
**May 20, 2005**



Washington \_\_\_\_\_  
***State Auditor***  
\_\_\_\_\_  
Brian Sonntag



**Washington State Auditor  
Brian Sonntag**

May 20, 2005

Board of Commissioners  
Whidbey General Hospital  
Coupeville, Washington

***Report on Accountability for Public Resources***

Please find attached our report on the Whidbey General Hospital's accountability for public resources and compliance with state laws and regulations and its own policies and procedures.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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# Audit Summary

## Whidbey General Hospital Island County January 20, 2005

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

This report contains the results of our independent accountability audit of the Whidbey General Hospital.

We performed audit procedures to determine whether the District complied with state laws and regulations and its own policies and procedures. We also examined District management's accountability for public resources. Our work focused on specific areas that have potential for abuse and misuse of public resources.

Areas examined during the audit were selected using financial transactions from January 1, 2002, through December 31, 2003. Matters that were identified during our review of these transactions and reported as a finding in this report have been examined through the report date.

### ***RESULTS***

The District complied with state laws and regulations and its own policies and procedures in the area we examined. We did identify one condition significant enough to report as a finding:

- A Hospital Board Member influenced or attempted to influence other Board Members to approve a contract for an Emergency Medical Service director in which the Board Member has an interest.

### ***RELATED REPORTS***

The financial statement audit was performed by a firm of certified public accountants. That firm's report can be obtained from the District.

### ***CLOSING REMARKS***

We thank District officials and personnel for their assistance and cooperation during the audit.

# Description of the District

## Whidbey General Hospital Island County January 20, 2005

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

Whidbey Island Public Hospital District does business as Whidbey General Hospital and is governed by five elected Commissioners. The District owns and operates Whidbey General Hospital located in Coupeville and provides health care services to the Whidbey Island community. Additionally, the District also operates the North Whidbey Community Clinic and South Whidbey Community Clinic, which provide physical therapy and primary care services. The District also provides ambulance services. The District's net patient service revenues were \$38,242,066 and \$35,835,397 for calendar years 2003 and 2002, respectively.

### ***AUDIT HISTORY***

We audit the District every two years. The District has had no audit findings during the last five audit periods; however this report does include an audit finding. District management has been responsive to past audit recommendations. We appreciate the District's commitment to maintain public accountability.

### ***ELECTED OFFICIALS***

These officials served during the audit period:

Board of Commissioners:

Peter Borden  
Roger Case  
Kristy Miller  
Barbara Saugen  
Holly Schoenknecht  
Paul Zaveruha

### ***APPOINTED OFFICIALS***

Administrator  
Chief Financial Officer  
Attorney  
Chief Nursing Executive  
Chief Nursing Executive  
Chief Information Officer

Scott Rhine  
Doug Bishop  
Brad Berg of Foster Pepper & Shefelman  
Jacque Scott  
Judy Moore  
Tom Tomasino

### ***ADDRESS***

District

101 North Main Street  
Coupeville, WA 98239

# Audit Areas Examined

## Whidbey General Hospital Island County January 20, 2005

In keeping with general auditing practices, we do not examine every portion of the Whidbey General Hospital's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

### ***ACCOUNTABILITY FOR PUBLIC RESOURCES***

We evaluated the District's accountability in the following areas:

- Accounts receivable
- General cash receipts
- General disbursements
- Payroll
- Petty cash/imprest funds
- Assets
- Going concern

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Commissioner compensation
- Conflict of interest
- Constituent referrals
- Bond covenants
- Budget compliance
- Open public meetings
- Public record requests
- Competitive bid laws
- General insurance coverage

### ***FINANCIAL AREAS***

The financial statement audit was performed by a firm of certified public accountants. We reviewed the financial statements and the work performed by their independent accountants. We examined the financial activity and balances of the District including:

- Cash and investments
- Revenues
- Expenditures
- Long-term debt
- Overall presentation of the financial statements

# Schedule of Audit Findings

## Whidbey General Hospital Island County January 1, 2002 through December 31, 2003

- 1. The Whidbey General Hospital had a hospital Board Member influence or attempted to influence other Board Members to approve a contract for an Emergency Medical Service Director in which the Board Member has an interest.**

### Description of Condition

In November 2003, voters elected the Whidbey General Hospital Emergency Medical Service (EMS) Director to the Whidbey Island Public Hospital District Board. At the time of his election, this individual's professional service corporation had a contract with the Hospital that paid the corporation \$78,000. The corporation then paid the salary to the Director of the Emergency Medical Services.

Shortly after the election to the Board, several citizens contacted our Office concerned that a conflict of interest would occur because the Board is the governing body for the Hospital, and the new Commissioner would be in a position to make decisions regarding his contract with the Hospital.

With the Board's knowledge, the Hospital's attorney and the Commissioner's private attorney attempted to negotiate a new arrangement to resolve the conflict of interest issue. Under the arrangement, money that had been paid by the Hospital to the new Commissioner's professional service corporation would be paid to a different corporation, which would then make payments to the new Commissioner.

Subsequently, the Hospital's administrator presented to the Board an arrangement under which the hospital would contract with and pay the Island County EMS Council for EMS services. The Council was to form a non-profit and hire the Commissioner/EMS Director, meaning he no longer would have a direct contract with the Hospital. When the arrangement was presented at the April 12, 2004, Board of Commissioner meeting, Hospital staff stated the new arrangement would allow the EMS Director to stay in that position. The Board then voted to approve this arrangement. When the Hospital subsequently presented the written Agreement to the EMS Council, the Agreement specifically stated the person to be hired was the new Commissioner.

The citizens who raised the concern stated the newly elected Commissioner stated he would file litigation against the District regarding the conflict of interest issues arising from his election to the Board. This statement and other activity by the newly elected Commissioner influenced the action of one or more Commissioners with respect to approval of the EMS Director contract.

### Cause of Condition

The newly elected District Commissioner had a contract with the Hospital that could not be renewed after his election to the Board without violating the conflict-of-interest laws. Although a new contract was negotiated, the newly elected member influenced or attempted to influence other members of the Board of Commissioners into approving the contract with the Island County Emergency Medical Services Council.

## Effect of Condition

A municipal officer may not use the exemption in state law (RCW 42.23.040) related to remote interest in a contract if the officer influences or attempts to influence other Board members to enter into the contract.

## Recommendation

We recommend that the Hospital take necessary actions to comply with state law (RCW 42.23.030 and 42.23.040).

## District's Response

The District disagreed with our finding as presented. Here is the conclusion included in its letter of response:

*As a result of the issues highlighted by the Findings, as well as ongoing discussions among the Board, the Board has become increasingly sensitized to the potential for conflicts of interest and other types of conflicts among the members of the Board and the District and has taken a number of actions to minimize the potential for conflicts in the future*

*On July 12, 2004, the Board adopted a new detailed conflict of interest policy that is designed to facilitate the process for identifying potential conflicts in advance and resolving the conflicts in a lawful and appropriate manner. The District has also arranged for legal counsel to be present at all meetings of the Board to ensure that conflicts are identified and resolved before any action is taken by the Board at its meetings. The District is also committed to reexamine the current conflicts of interest policy in light of the Findings and to obtain the assistance of qualified third parties, including the State Auditor's Office, to ensure that the District conducts its business without the risk of future audit findings of conflicts of interest. Finally, the Board intends to review the EMS Council Agreement prior to the expiration of its current term and ensure that any decision by the Board to consider the possible renewal of the agreement complies with all provisions of applicable law, including the conflict of interest statute, and that the process for considering the possible renewal is done in a manner that eliminates any perception of influence in violation of the conflict of interest statute.*

## Auditor's Remarks

We appreciate the steps the District has taken to deal with conflict of interest issues. We will follow up on these issues during our next audit.

## Applicable Laws and Regulations

### **RCW 42.23.030 Interest in contracts prohibited.**

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part, or which may be made for the benefit of his or her office, or accept, directly or indirectly, any compensation, gratuity or reward in connection with such contract from any other person beneficially interested therein.

### **RCW 42.23.040 Remote interests.**

A municipal officer is not interested in a contract, within the meaning of RCW 42.23.030, if the officer has only a remote interest in the contract and the extent of the interest is disclosed to the governing body of the municipality of which the officer is an officer and noted in the official minutes or similar records of the



municipality prior to the formation of the contract, and thereafter the governing body authorizes, approves, or ratifies the contract in good faith by a vote of its membership sufficient for the purpose without counting the vote or votes of the officer having the remote interest. As used in this section "remote interest" means:

- (1) That of a nonsalaried officer of a nonprofit corporation;
- (2) That of an employee or agent of a contracting party where the compensation of such employee or agent consists entirely of fixed wages or salary;
- (3) That of a landlord or tenant of a contracting party;
- (4) That of a holder of less than one percent of the shares of a corporation or cooperative which is a contracting party.

None of the provisions of this section are applicable to any officer interested in a contract, even if the officer's interest is only remote, if the officer influences or attempts to influence any other officer of the municipality of which he or she is an officer to enter into the contract.