



**Office of the Washington State Auditor**  
**Pat McCarthy**

## **Accountability Audit Report**

# **Kennewick Public Hospital District**

## **No. 1**

## **(TRIOS Health)**

**Benton County**

**For the period January 1, 2016 through December 31, 2016**

**Published April 23, 2018**

**Report No. 1021203**





**Office of the Washington State Auditor**  
**Pat McCarthy**

April 23, 2018

Board of Commissioners  
TRIOS Health  
Kennewick, 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 independent audit report on the District's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	6
Related Reports.....	9
Information about the District.....	10
About the State Auditor's Office.....	11

## AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, except as described below, District operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the District could make improvements.

We recommended the District's officials closely monitor the District's financial status and develop a formal plan, establishing benchmarks and guidelines, to address its financial situation.

These recommendations were included with our report and in a separate communication as a finding.

As referenced above, we also noted certain matters that we communicated to District management and Board of Commissioners in a letter dated April 17, 2018, related to advertising expenses. We appreciate the District's commitment to resolving those matters.

### About the audit

This report contains the results of our independent accountability audit of TRIOS Health from January 1, 2016 through December 31, 2016.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. 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, based on our risk assessment for the year ended December 31, 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- General disbursements
- Financial condition and fiscal sustainability
- Payroll - wages
- Patient billings and adjustments
- Cash receipting at the clinics
- Compliance with third party receipting contracts

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2016-001    The District's financial condition puts it at risk of not being able to meet financial obligations and maintain current service levels.**

#### ***Background***

Kennewick Public Hospital District No.1, doing business as "Trios Health" provides health care services to residents and operates two hospitals and seven clinics. The District's operating revenue for 2016 was \$179,567,648. In the past five years, the District experienced various financial challenges, and it received management letters regarding financial condition for the 2013 and 2015 audits.

In June 2017, the District filed Chapter 9 Bankruptcy. The District is currently restructuring its debt and has until April 30, 2018 to receive all proof of claims from creditors.

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

We analyzed the District's financial condition and focused on the following areas.

The District's change in net position was negative for each year and continues to decline, which means the District had more expenditures than revenues received.

Year	2013	2014	2015	2016	2017
Percentage change in net position	-11.9%	-20.5%	-1.1%	-60.4%	-207.2%

The number of days District could operate on its net position was negative for fiscal year 2017, indicating the District is unable to meet financial obligations and does not have enough cash to pay bills.

Year	2013	2014	2015	2016	2017
Net position sufficiency	111 days	79 days	72 days	27 days	-30 days

The outstanding accounts payable balance as of the end of 2017 increased by over 70 percent, or \$14 million, from 2016, as shown in the table below. In addition, the District incurred \$786,057 in late fees from outstanding accounts payables in fiscal years 2016 and 2017.

Year	2015	2016	2017
Accounts payable	\$13,956,951	\$20,206,442	\$34,720,627

The District's debt load increased substantially in 2017 because of several large capital lease payments that were due in full by 2017. This measure shows the percentage of revenues used for debt-service payments. This large percentage in 2017 indicates the District is using a substantial amount of its revenues to pay debt.

Year	2013	2014	2015	2016	2017
Debt load	2.9%	6.7%	9.7%	13.6%	121.3%

In addition, the District received a significant revenue reduction of more than \$300,000 a month in Certified Public Expenditure (CPE) Disproportionate Share (DSH) payment beginning in October 2017. Further, the District is expecting an additional 30 percent revenue reduction for CPE DSH payments in 2018.

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

The District provides a wide array of services but lacks sufficient revenue streams to provide these services at their current levels. The majority of the District's funds are spent on large capital leases related to the Southridge Hospital, Southridge clinics and numerous equipment leases.

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

The District filed for bankruptcy. The District has encountered recurring losses and cash flow issues resulting in default on obligations. This raises substantial doubt about the District's ability to continue operations. Without a formal comprehensive plan to monitor financial condition and address cash flow issues, the District will be unable to ensure it can meet its financial obligations and provide services at current levels.

### ***Recommendation***

We recommend the District's officials closely monitor the District's financial status and develop a formal plan, establishing benchmarks and guidelines, to address its financial situation.

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

*KPHD agrees with this finding. As noted above KPHD has filed for Chapter 9 Bankruptcy. As an intricate part of the Bankruptcy a Plan is being developed to address the District's Financial status.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review this condition during our next audit.



## RELATED REPORTS

### **Financial**

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available on our website, <http://portal.sao.wa.gov/ReportSearch>. The firm reported a significant deficiency over manual journal entries. The firm also reported material weaknesses over the financial statement preparation process, audit adjustments, and reconciliations of accounts. Last, the firm reported non-compliance with lack of proper collateralization of debt and debt covenant requirements.

## INFORMATION ABOUT THE DISTRICT

Kennewick Public Hospital District No. 1, doing business as Trios Health (formerly Kennewick General Hospital) provides health care services to patients in Benton and Franklin counties. Services include acute care, emergency room, home health, outpatient surgery and related services such as laboratory and X-ray. The District operates two Hospital locations, Southridge Campus and Auburn Campus Birthing Center. The District also owns and operates Trios Health Physician Clinics, formerly Northwest Practice Management, composed of several clinics and medical practices for which it provides management services. In addition, the District owns and operates Benton Franklin Elder Services, doing business as Adult Day Services of the Tri-Cities.

An elected, seven-member Board of Commissioners governs the District. The Board appoints management to oversee the District's daily operations. For fiscal year 2016, the District operated on an annual budget of approximately \$194 million.

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 TRIOS Health 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
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