

# PUBLIC TESTIMONY SUMMARY

## I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

### Three Public Hospital Districts (November 12, 2009)

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As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits  
on December 1, 2009

*The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.*

**Title: Three Public Hospital Districts** (Valley Medical Center, Evergreen Healthcare, Stevens Hospital)

**Audit Scope and Objectives:**

The audit focused on the three largest public hospital districts in the state:

- King County Public Hospital District 1: Valley Medical Center;
- King County Public Hospital District 2: Evergreen Healthcare; and
- Snohomish County Public Hospital District 2: Stevens Hospital.

The audit reviewed Chief Executive Officer (CEO) compensation and severance arrangements as specified in the employment contracts for fiscal years 2006 through 2008. The report indicates that, at Stevens, the former CEO's employment contract was also reviewed since he received severance payments during the period under review. For other audit areas, the report indicates a review of records from January 1 through December 31, 2007 (2005-2007 for construction), although the auditors also obtained data related to 2008.

SAO reports that the audit objective was to determine if improvement opportunities existed in the following areas of hospital operations for the three hospital districts:

- Transparency and citizen outreach;
- Process and procedures used in negotiating and determining CEO compensation and severance;
- Nursing and administrative staffing levels;
- Procurement and inventory management related to medical supplies; and
- Construction reporting and monitoring.

The report indicates that the audit also addressed the nine elements in Initiative 900.

<b>SAO Findings:</b>	<b>SAO Recommendations:</b>
<p>Audit findings are presented using the following structure:</p> <p><b>Accountability and transparency</b></p> <ul style="list-style-type: none"> <li>• Communication with the public</li> <li>• CEO compensation and severance</li> </ul> <p><b>Operations and construction mgt</b></p> <ul style="list-style-type: none"> <li>• Nursing and administrative staffing</li> <li>• Procurement and inventory management related to medical supplies</li> <li>• Construction</li> </ul>	<p>The report provides recommendations to specific hospital districts on 22 separate issues that are organized under the structure described at left.</p> <p>“Procurement and inventory management related to medical supplies,” includes Issue 14 – The hospital districts lack policies requiring physician disclosure of outside compensation and financial relationships on an ongoing basis, which can potentially affect the selection and cost of medical supplies.</p> <p>In addition to recommendations to the three districts to address this issue, the audit also recommends that <i>the Legislature amend state law to explicitly limit gifts and compensation to physicians from vendor representatives.</i></p>
<b>Agency Responses in Audit Report?</b>	Yes; Appendix H contains a response from each of the three hospital districts.
<b>Legislative Action Requested?</b>	Yes, as described above.

**Agencies Testifying:**

- Valley Medical Center (Jeannine Grinnell, Treasurer)
- Evergreen Healthcare (Kathleen Gilles, Corporate Compliance Officer)

**Summary of Testimony from Audited Agencies:**

This was a very good performance audit for Valley Medical; no potential cost savings were recommended in the audit. The audit had some good recommendations for improvements, and we have implemented or are in the process of implementing these. Valley Medical received commendations in the audit in several areas. In response to an issue raised in the audit, Valley Medical had a third party review documents related to CEO compensation and severance. In response to that review, the Board for Valley Medical has reformed and amended the relevant documents to reflect the intent of the Board and has verified that the amount funded was the correct amount. We were recently named by *Modern Healthcare* magazine as one of the top ten hospitals to work for in the country.

We would like to acknowledge the professionalism, commitment, and partnership of the audit team. We are aware that, as a public hospital district, we have a significant responsibility to our community in exchange for the benefits we receive. We must be accountable to that community in terms of quality care and financial stewardship. We agree with nearly all of the recommendations in the audit, and many have been completed, are under way, or are under consideration. Implementation of staffing changes has resulted in realized savings of \$4.6 million. Evergreen also received commendations in the audit in several areas.

**Other Parties Testifying:**

- Jeff Mero, Executive Director, Association of Washington Public Hospital Districts

**Summary of Testimony from Other Parties:**

We offer commendations to all involved in this audit. It was a lengthy process, but all parties remained committed to constructive, positive interaction. The hospitals worked hard to be responsive to the information requests; the contractor worked hard to keep everyone in the loop. There is real value in recognizing the commendatory practices at the hospitals. The Association is committed to sharing the findings, recommendations, and best practices identified in the report with the Association's membership. With regard to the proposal for new legislation, the Association stands ready to work with the Legislature and the Auditor's Office to ensure the best interests of our patients are protected at all times.