

Washington State Auditor's Office
Accountability Audit Report

Jefferson County Public Hospital
District No. 2
(Jefferson Healthcare)

Report Date
April 14, 2014

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Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

April 21, 2014

Board of Commissioners
Jefferson Healthcare
Port Townsend, 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 Jefferson Healthcare'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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Jefferson County
April 14, 2014**

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Audit Summary

Jefferson Healthcare Jefferson County April 14, 2014

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of the Jefferson Healthcare from January 1, 2011 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:

- Procurement (bidding/prevaling wage/change orders)
- Follow up on cash receipting issue
- Financial condition
- Patient accounts receivable write-offs
- General disbursements
- Building purchase

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 did not follow state procurement laws, limiting competition and placing District funds at risk.

Related Reports

**Jefferson Healthcare
Jefferson County
April 14, 2014**

FINANCIAL

A financial statement audit was performed by a firm of certified public accountants for each fiscal year 2012 and 2011. That firm's reports are available from the District.

Description of the District

Jefferson Healthcare Jefferson County April 14, 2014

ABOUT THE DISTRICT

Jefferson County Public Hospital District No. 2, doing business as Jefferson Healthcare, is the principal provider of health care services for Port Townsend and the surrounding communities of Jefferson County. The District is a 25-bed critical access hospital. The District operated on a \$69.3 million operating revenue budget during 2012. Services offered by its 500 employees include an orthopedic clinic, medical, surgical, 24-hour emergency, family birth and nursery care, laboratory, radiology, physical therapy, home health, cardiac rehabilitation, clinics in Port Ludlow and Madrona, wellness program and women's services.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Jill Buhler
Tony DeLeo
Marie Dressler, R.N.
Chuck Russell
Marc Mauney

APPOINTED OFFICIALS

Chief Executive Officer
Chief Financial Officer
Chief Operating Officer

Michael Glenn
Hilary Whittington
Paula Dowdle

DISTRICT CONTACT INFORMATION

Address: Jefferson Healthcare
834 Sheridan
Port Townsend, WA 98368

Phone: (360) 385-2200

Website: jeffersonhealthcare.org

AUDIT HISTORY

We audit the District every two years. A finding was reported for the District's financial condition in the 2005-2006 audit, which has been resolved. During the current audit period, we issued a finding regarding procurement.

Schedule of Audit Findings and Responses

Jefferson Healthcare Jefferson County January 1, 2011 through December 31, 2012

1. The District did not follow state procurement laws, limiting competition and placing District funds at risk

Background:

Local governments are required to comply with numerous state requirements for public works projects. These governments must adopt policies to ensure they comply with these laws, which may vary from project to project. For example, governments must estimate project costs including materials, supplies, equipment, labor and applicable sales and use taxes. Also, governments are required to pay prevailing wage for contracted public works and obtain performance bonds and/or withhold retainage to ensure work is acceptable and all tax obligations are met. In addition, local governments are required to comply with change order requirements to ensure the understanding between the contractor and the District is documented and monitored.

The District must formally bid purchases of equipment or materials \$75,000 or more, and have a competitive process in place for purchases below that threshold. The District may use day labor (their own employees) for public works projects if the total of the entire project, including materials, sales taxes and all labor costs is less than \$75,000.

Description of Condition

The District does not have written policies and procedures that ensure;

- Change orders are received, reviewed and approved.
- Retainage is withheld from contracts.
- Appropriate releases are obtained from applicable Washington State agencies prior to releasing the retainage.
- Prevailing wage rates are paid.
- Appropriate Washington State Department of Labor and Industries (L&I) forms are completed and filed.
- District employees are only used to provide labor on public work projects of less than \$75,000.

Cause of Condition

District employees responsible for the monitoring and management of public works projects lack the experience and knowledge to develop the necessary policies and practices that would ensure compliance with state procurement laws.

Effect of Condition

Change orders:

The District contracted for a Medical Short Stay parking lot project. The District had a 'punchlist' of items that it wanted changed without a cost increase. No change order was prepared. The District worked out the details with the contractor verbally and by letter rather than change order. Change orders protect the District by ensuring that the project timeline, scope and funding are agreed upon by the contractor and the District.

Retainage and prevailing wage:

We reviewed ten invoices totaling \$73,707. None of the contractors filed the required prevailing wage forms with L&I, and none had retainage withheld from their contract payments. The District contacted the contractors at the end of the audit and had them file the prevailing wage forms. One contractor, now out of business, failed to file. Failing to withhold retainage puts the District at risk if projects are not completed. Failing to ensure prevailing wage is paid puts the District at risk of additional cost if prevailing wage is not paid.

Day labor:

The District remodeled its cafeteria serving area using a combination of day labor and contractors in the amount of \$93,356 drawn from the small works roster. The District also used day labor for the server remodel project. The District estimated the project to be \$137,927. The cost of that project was \$43,114 for hospital staff, and at approximately \$93,356 paid to contractors. By using hospital staff and not following bid law requirements, the District cannot be sure it received the lowest responsible price for the project.

Recommendation

We recommend the District develop and follow written policies and procedures that ensure compliance with state procurement laws. Specifically in the areas of:

- Change orders
- Retainage
- Prevailing wage
- Day labor

We also recommend the District staff seek training for bid law requirements.

District's Response

The District thanks the SAO for recommending ways to more effectively manage its small works roster and minor construction projects to improve compliance with necessary policies practices and procurement laws. Prior to the conclusion of audit fieldwork, the District drafted policies and procedures that ensure compliance with state procurement laws in the areas of processing and approving change orders, withholding retainage, administration of prevailing wage and monitoring day labor. Additionally, the District has identified training programs for staff related to bid law requirements as well as efficiencies and tools related to monitoring compliance with policies and procedures.

Auditor's Remarks

We thank the District for its assistance during the audit and look forward to working with it again next year.

Applicable Laws and Regulations

RCW 70.44.140, Contracts for material and work — Call for bids — Alternative procedures — Exemptions, states in part:

- (1) All materials purchased and work ordered, the estimated cost of which is in excess of seventy-five thousand dollars, shall be by contract . . .
- (2) As an alternative to the requirements of subsection (1) of this section, a public hospital district may let contracts using the small works roster process under RCW 39.04.155.
- (3) Any purchases with an estimated cost of up to fifteen thousand dollars may be made using the process provided in RCW 39.04.190.
- (4) The commission may waive the competitive bidding requirements of this section pursuant to RCW 39.04.280 if an exemption contained within that section applies to the purchase or public work.

RCW 60.28.011, Retained percentage, states:

- (1)(a) Except as provided in (b) of this subsection, public improvement contracts shall provide, and public bodies shall reserve, a contract retainage not to exceed five percent of the moneys earned by the contractor as a trust fund for the protection and payment of: (i) The claims of any person arising under the contract; and (ii) the state with respect to taxes imposed pursuant to Titles 50, 51, and 82 RCW which may be due from such contractor . . .
- (2) Every person performing labor or furnishing supplies toward the completion of a public improvement contract shall have a lien upon moneys reserved by a public body under the provisions of a public

improvement contract. However, the notice of the lien of the claimant shall be given within forty-five days of completion of the contract work, and in the manner provided in RCW 39.08.030.

RCW 60.28.051, Duties of disbursing officer upon completion of contract, states:

Upon completion of a contract, the state, county, or other municipal officer charged with the duty of disbursing or authorizing disbursement or payment of such contracts shall forthwith notify the department of revenue, the employment security department, and the department of labor and industries of the completion of contracts over thirty-five thousand dollars. Such officer shall not make any payment from the retained percentage fund or release any retained percentage escrow account to any person, until he or she has received from the department of revenue, the employment security department, and the department of labor and industries certificates that all taxes, increases, and penalties due from the contractor, and all taxes due and to become due with respect to such contract have been paid in full or that they are, in each department's opinion, readily collectible without recourse to the state's lien on the retained percentage.

RCW 39.12.020, Prevailing rate to be paid on public works, states in part:

The hourly wages to be paid to laborers, workers, or mechanics, upon all public works and under all public building service maintenance contracts of the state or any county, municipality or political subdivision created by its laws, shall be not less than the prevailing rate of wage for an hour's work in the same trade or occupation in the locality within the state where such labor is performed



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 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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