



**Washington State Auditor's Office**

**Troy Kelley**

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## **Accountability Audit Report**

# **Grant County Public Hospital District No. 2 (Quincy Valley Medical Center)**

**For the period January 1, 2012 through December 31, 2013**

**Published April 23, 2015**

**Report No. 1014057**





## Washington State Auditor Troy Kelley

April 23, 2015

Board of Commissioners  
Quincy Valley Medical Center  
Quincy, 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,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Audit Summary .....	4
Schedule Of Audit Findings And Responses .....	5
Status Of Prior Audit Findings .....	7
Related Reports .....	8
Information About The District .....	9
About The State Auditor’s Office.....	10

## 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 re-evaluate its strategic plan to address key financial impacts such as the increase in revenue write-offs and bad debt expense and its reliance on borrowing money to fund ongoing operations. We further recommend the Board ensure the plan is continuously monitored to ensure it is being followed and the desired results achieved to resolve its cash-flow issues.

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 Quincy Valley Medical Center from January 1, 2012 through December 31, 2013.

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:

- Cash receipting
- Financial condition
- Small and attractive asset tracking

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**2013-001    The District has insufficient revenue to cover operating expenses, increasing the risk that it will not be able to continue service at current levels.**

### *Description of Condition*

The District's financial activities for 2013 continue to reinforce a decline in its financial health. The District continues to increase borrowing amounts from Grant County, in the form of registered warrants, to pay for operations and to address cash flow shortages. Interest expenses continue to be charged on these funds, resulting in additional expense to the District. Interest expenses charged in 2013 totaled \$138,794.

<b>Fiscal Year</b>	<b>Cash Balance</b>	<b>Registered Warrants Outstanding</b>	<b>Operating Loss</b>
2010	\$96,576	\$1,202,966	\$1,323,095
2011	\$411,840	\$2,912,760	\$1,368,746
2012	\$187,085	\$2,820,618	\$214,112
2013	\$147,593	\$3,512,030	\$1,695,020

As shown in the table above, the District's registered warrant balance at Grant County was approximately \$3.5 million at the end of 2013. We extended our review of the District's financial health to November 19, 2014 and noted the unaudited registered warrant balance had increased to \$3.6 million.

### *Cause of Condition*

The District attributes the increase in its registered warrants to lower Medicare reimbursement rates and an increase in bad debts due to non-payment of patient accounts. Additionally, in November of 2014, voters turned down a Maintenance and Operation levy of \$2.2 million to help pay down the registered warrant balance. Although the District has streamlined operations and improved cash collections, it has not been successful in improving its financial health. As shown in the table below, revenue write-offs and bad debt expense was approximately \$6 million at the end of 2013, which is the highest it has been in the past five years.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Revenue Deductions and Allowances and Provisions for Bad Debt	\$3,166,979	\$3,174,723	\$4,999,046	\$6,067,066

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

Although the District has taken steps to improve its financial condition, its financial health continues to decline. As a result, the District has discontinued its surgical program effective January 1, 2015, and may not be able to maintain its other services offered at present levels.

### ***Recommendation***

We recommend the District re-evaluate its strategic plan to address key financial impacts such as the increase in revenue write-offs and bad debt expense and its reliance on borrowing money to fund ongoing operations. We further recommend the Board ensure the plan is continuously monitored to ensure it is being followed and the desired results achieved to resolve its cash-flow issues.

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

*The Bad Debt & Charity Care are down in 2014 to \$1,520,645 compared to \$1,781,337 in 2013, a reduction of \$260,692. The District Tax Revenue will increase by \$197,590 in 2015 to \$1,314,319. Combined, those changes amount to a \$458,282 bottom line change to the District's Financials. In addition, the County Warrant Line Balance decreased by \$393,464 to \$3,118,566 as of 12-31-2014.*

*The District believes that it has taken steps necessary to reduce the reliance on borrowed funds to sustain hospital operations and those steps are reducing the balance of the County Warrant Line. In December of 2014, GCHD#2 divested of its surgery program and has made additional adjustments to its operations to lower overall expenses. Within the next 6 months, the Hospital District is anticipating additional cash flows generated from the 340(B) program, reimbursement for maintaining Meaningful Use Stage II compliance, accelerated collections efforts and increase in our property tax income, all of which will help lower further the warrants owed to Grant County.*

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

We appreciate the steps the District is taking to address this issue. We will review the condition during our next audit.

## STATUS OF PRIOR AUDIT FINDINGS

The status of findings contained in the prior years' audit reports of the Quincy Valley Medical Center is provided below:

**1. The District has insufficient revenue to cover operating expenses, increasing the risk that it will not be able to continue service at current levels.**

Report No. 1011509, dated February 28, 2014

### *Background*

Quincy Valley Medical Center's financial activities for 2012 revealed a continued decline in its financial health, resulting in increased borrowing from the County to pay for operations and to address cash flow shortages. The borrowing is through registered warrants. Interest is charged on these funds, resulting in additional expense to the District.

	2009	2010	2011	2012
<b>Registered Warrants</b>	\$1,529,157	\$1,202,966	\$2,912,760	\$2,820,618

As shown in the table above, the District's registered warrant balance at Grant County was approximately \$2.8 million at the end of 2012. We extended our review of the District's financial health to December 2013 and noted the unaudited registered warrant balance has increased significantly to \$3.5 million.

### *Status*

The District has taken steps to address its financial condition, but continues to borrow from the County to pay for operations and address cash flow shortages.

We recommend the District continue taking action to address its cash flow issues.

## RELATED REPORTS

### **Financial**

A financial statement audit was performed by a firm of certified public accountants. That firm's report is available from Quincy Valley Medical Center. The firm reported a significant deficiency in internal controls over financial reporting regarding timely reconciliation of cash accounts and independent reviews over journal entries.



## INFORMATION ABOUT THE DISTRICT

Grant County Public Hospital District No. 2, doing business as Quincy Valley Medical Center, is a public hospital district located in Grant County in Quincy. The District provides medical services to residents of the Quincy Valley area. The District owns and operates several health care centers including a 25-bed acute care facility and SageView Family Care, a rural health clinic.

An elected, five-member Board of Commissioners governs the District. The Board appoints an Administrator to oversee the District's daily operations as well as its approximately 100 employees. The District receives most of its funding from patient services. For fiscal year 2013, the District operated on an annual budget of approximately \$12 million.

Contact information related to this report	
Address:	Quincy Valley Medical Center 908 10th Avenue S.W. Quincy, WA 98848
Contact:	Dean Taplett, Chief Financial Officer
Telephone:	509-787-3531
Website:	<a href="http://www.quincyhospital.org">www.quincyhospital.org</a>

*Information current as of report publish date.*

## Audit history

You can find current and past audit reports for the Quincy Valley Medical Center 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	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>