



Washington State Auditor's Office

Independence • Respect • Integrity

Fraud Investigation Report

Grant County Public Hospital District No. 4

(McKay Healthcare and Rehabilitation Center)

For the Investigation Period June 1, 2014 through October 31, 2014

Published May 23, 2016

Report No. 1016770





Washington State Auditor's Office

May 23, 2016

Grant County Public Hospital District No. 4
Soap Lake, Washington

Report on Fraud Investigation

Attached is the official report on a misappropriation at the Grant County Public Hospital District No. 4. On March 18, 2015, the District notified the State Auditor's Office of a potential loss of public funds. This notification was submitted to us under the provisions of state law (RCW 43.09.185).

This report contains the results of our investigation of the former Registered Nurse's unallowable activities at the District from June 1, 2014 through October 31, 2014. The purpose of our investigation was to determine if a misappropriation had occurred.

Our investigation was performed under the authority of state law (RCW 43.09.260) and included procedures we considered necessary under the circumstances.

Questions about this report should be directed to Sarah Walker, Fraud Manager, at (509) 454-3621.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

cc: Ms. Deana Gardner, Business Office Director

FRAUD INVESTIGATION REPORT

Investigation Summary

On March 18, 2015, the District Administrator notified our Office regarding a potential loss of public funds, as required by state law.

The District initiated an investigation and hired a consultant who specialized in nursing investigations to perform a detailed review. The District determined a theft of narcotics had occurred, with a total assessed “street value” of approximately \$30,000, between June 2014 and October 2014. The District’s actual cost of narcotics was approximately 30 cents per pill; however, the street assessed value per pill was approximately \$30.

The District has filed a report with the Soap Lake Police Department, which is investigating this case. This report is being referred to the Grant County Prosecuting Attorney’s Office.

Background and Investigation Results

The District, located in Grant County, operates on an annual budget of approximately \$2.4 million, including \$64,330 in pharmaceutical expenses during fiscal year 2014.

The elected, five-member District Board of Commissioners appoints an Administrator to oversee District operations. The District employs approximately 45 employees, including 24 nursing staff. The Director of Nurses oversees the daily management of the nursing staff. Nursing staff provide services for approximately 42 patients, including medication administration, wound care, and rehabilitation services.

The District and consultant’s investigation focused on medication administration, including an extensive review of District ordering, receiving, shipping, inventory logs, resident medical records, and employee interviews. It was determined through review of the investigation results that between June 2014 and October 2014, one Registered Nurse initiated 22 orders for narcotic pain medications, received and signed for a majority of these orders. The Registered Nurse did not properly record these orders in the narcotic logbooks or resident medication administration records. The following additional information was identified:

- The 22 orders resulted in the shipment of 26 packages of narcotic medication. Records at the outside Pharmacy where the orders were placed show that the same Registered Nurse signed UPS tracking slips for the delivery of 20 of the 26 packages. The District had no evidence in its possession of any narcotics packing slips related to these particular orders. Within three of the orders, covering a 30-day period, nearly 600 oxycodone pills went missing. Packing slips retained by the District would have indicated whether two nurses completed a dual count of the received medication, recorded the count in the narcotic book, and properly secured the medication.

- Narcotic medications involved primarily oxycodone and hydrocodone.
- The District reported thirty-four pages in four separate narcotic logbooks had been removed.

On December 1, 2014, the contracted nursing investigator interviewed the former Registered Nurse. During the interview, the nurse acknowledged that all of the 22 orders in question were in her handwriting. When asked about the missing packing slips related to these orders, she replied that the packing slips never arrived and she knew this because they were not in the boxes when they were opened. When shown her signature on the UPS tracking slip, she did not have an answer as to what happened to the box after she signed the slip, or why there was no packing slip on file showing delivery.

Control Weaknesses

Internal controls at the District were not adequate to safeguard public resources. We found the following weaknesses allowed the misappropriation to occur:

- Monitoring of narcotic orders was not sufficient to ensure reasonableness and validity of the order. Orders initiated by the nurse were faxed to the physician for signature; however, the physician did not question the number of narcotic prescriptions being ordered.
- The Registered Nurse was able to receipt and sign for narcotic orders by herself.
- Narcotic packing slip documentation was not being monitored or reconciled to inventory records to ensure appropriate tracking and recording.

Recommendations

We recommend the District strengthen internal controls over narcotic management to ensure adequate oversight and monitoring to safeguard public resources and compliance with District policies.

We also recommend the District seek recovery of the costs associated with the diverted narcotics and related investigation costs of \$2,139 from the former Registered Nurse and/or its insurance bonding company, as appropriate. Any compromise or settlement of this claim by the District must be approved in writing by the Attorney General and State Auditor as directed by state law (RCW 43.09.260). Assistant Attorney General Matt Kernutt is the contact person for the Attorney General's Office and can be reached at (360) 586-0740 or mattk1@atg.wa.gov. The contact for the State Auditor's Office is Sadie Armijo, Deputy Director of Local Audit, who can be reached at (360) 902-0362 or Sadie.Armijo@sao.wa.gov.

District's Response

- *Review, update and revise policies and procedures on ordering and documenting narcotics will include:*
 - *When Narcotics are received in the facility there will be two employees, one always being a Licensed Nurse, will be present to account for the Narcotics received and recorded.*
 - *The Pharmacy will send a listing of all Narcotics to the Director of Nursing for the purpose of auditing the Narcotic logs and reconciling the medications that have been sent are recorded and tracked.*
 - *Every page in the narcotic book will be accounted for by listing the page number and medication recorded in a line listing in front of the narcotic book.*
 - *The Director of Nursing or designee will conduct a narcotic reconciliation monthly along with another nurse to include drawer counts, looking for ripped out pages and counting consecutive numbered pages.*
 - *Monitoring - the length of time this is done will depend on confidence of DNS that staff understand and policies and procedures are being followed.*
- *In-service training of nursing staff will include identification of narcotic diversion:*
 - *The Physician, DNS, pharmacy, and all nursing staff will be review and hear together the policies and procedures related to narcotic prescription requests going forward.*
 - *Review proper written orders.*
 - *Go over process with nurses and pharmacy regarding accepting narcotics, counting, etc.*
 - *Institute training with the new pharmacy on recognizing diversion (with licensed nurses).*
 - *Randomly audit narcotic med cart.*
 - *Randomly audit narcotic packing slips monthly and who signs for the box.*
 - *Audit monthly residents who are not using narcotics/have them discontinued promptly and compare with the pharmacy if it has received any orders for narcotics.*

State Auditor's Office Remarks

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

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	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov