



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 (Coulee Medical Center)

Grant County

For the period January 1, 2015 through December 31, 2015

Published May 15, 2017

Report No. 1018951





Office of the Washington State Auditor
Pat McCarthy

May 15, 2017

Board of Commissioners
Coulee Medical Center
Grand Coulee, 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,

Pat McCarthy
State Auditor
Olympia, WA

TABLE OF CONTENTS

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

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 recommend the Board of Commissioners develop a formal plan to address the District's financial condition, including patient services, future operating income and cash flow.

Further, the Board should closely monitor and evaluate actual results compared to the plan to ensure the District's financial condition improves. The plan should be revised if expected improvements are not achieved.

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 Coulee Medical Center from January 1, 2015 through December 31, 2015.

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:

- Financial condition
- Payroll – compensation and paid time off
- Cash receipting
- Pharmacy controls

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2015-001 The District's financial condition puts it at risk of not being able to meet financial obligations and continue operations.

Description of Condition

The financial position of Douglas, Grant, Lincoln & Okanogan Counties Public Hospital District No. 6 began declining in 2012, and a recent District project caused the District to rely on registered warrants from the Grant County Treasurer's Office to cover daily operating costs.

Registered warrants are short-term funding available through the Treasurer's Office to pay daily operating expenses and long-term debt obligations when a local government has a cash shortfall. The District began using registered warrants in 2015, and the balance significantly increased in 2016.

Fiscal Year	Cash Balance	Registered Warrants	Operating Gain (Loss)	Change in Net Position
2012	\$ 2,403,421	\$ -	\$ (1,349,080)	\$ (1,824,266)
2013	\$ 3,784,000	\$ -	\$ 811,148	\$ 115,281
2014	\$ 1,997,000	\$ -	\$ (5,395,369)	\$ (6,160,217)
2015	\$ 331,088	\$ 168,303	\$ (703,268)	\$ (1,460,821)
2016	\$ 994,393	\$ 2,480,060	\$ (3,493,901)	\$ (5,719,598)

As of February 2017, the District had registered warrants of about \$2.54 million.

Cause of Condition

In August 2015, the District began an upgrade to its electronic health records software. The project was expected to cost \$1.3 million, and Grant County approved the use of \$1.5 million of registered warrants. The software upgrade began exceeding original estimates, and District officials subsequently determined that it would eventually cost \$4 million. As a result, the District canceled the upgrade after spending \$3.1 million.

In addition, the District's operating losses continued, resulting in the use of additional registered warrants to fund normal operating expenses. The District also had significant turnover in key administrative positions during the last year, including its Chief Executive Officer and Chief Financial Officer.

Effect of Condition

Unless the District reduces its reliance on registered warrants, it may not be able to provide its current level of services.

Recommendation

We recommend the Board of Commissioners develop a formal plan to address the District's financial condition, including patient services, future operating income and cash flow.

Further, the Board should closely monitor and evaluate actual results compared to the plan to ensure the District's financial condition improves. The plan should be revised if expected improvements are not achieved.

District's Response

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. The District has canceled the implementation of the EHR system that was draining cash and is currently restructuring to reduce payroll costs. Within the next 6 months, the Hospital District is anticipating additional cash flows generated from the 340(B) program, accelerated collection efforts with an outside billing contract and increased revenue generated by the hiring of a new ortho surgeon, all of which will help lower the warrants owed to Grant County.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue and will review the status in 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>.

Special investigations

We noted certain matters that we communicated to District management in a letter, relating to diversion of medication. We appreciate the District's commitment to resolving those matters.

INFORMATION ABOUT THE DISTRICT

Grant, Lincoln, Douglas and Okanogan counties own and operate Grant County Public Hospital District No. 6, doing business as Coulee Medical Center. The District is a 25-bed critical access hospital with an acute care and skilled nursing facility and physicians' clinic. Additional services provided by the District include acute hospital care, long-term skilled nursing care, emergency room services, physicians' clinics and related procedures, such as lab and X-ray.

An elected, five-member Board of Commissioners governs the District. The Board appoints an Administrator and a Chief Financial Officer to oversee the District's operations as well as its approximately 200 employees. District operating expenses in 2015 were approximately \$23 million.

Contact information related to this report	
Address:	Coulee Medical Center 411 Fortuyn Road Grand Coulee, WA 99133-8718
Contact:	Kelly Hughes, Controller
Telephone:	(509) 633-6360
Website:	www.cmccares.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for the Coulee 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	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov