



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

**Grant County Public Hospital District
No. 4**

**(McKay Healthcare and Rehabilitation
Center)**

For the period January 1, 2016 through December 31, 2017

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**Office of the Washington State Auditor
Pat McCarthy**

August 12, 2019

Board of Directors
McKay Healthcare and Rehabilitation Center
Soap Lake, 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 Center 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 independent audit report on the Center's compliance with applicable requirements and safeguarding of public resources for the 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 Results.....	4
Schedule of Audit Findings and Responses.....	5
Related Reports.....	8
Information about the District.....	9
About the State Auditor's Office.....	10

AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Center operations complied with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above and described in the attached finding, we identified areas in which the Center could make improvements.

These recommendations are included with our report as a finding.

As referenced above, we also noted certain matters that we communicated to Center management and Board of Directors in a letter dated July 25, 2019, related to timely filing of the Center's annual financial reports. We appreciate the Center's commitment to resolving those matters.

About the audit

This report contains the results of our independent accountability audit of McKay Healthcare and Rehabilitation Center from January 1, 2016 through December 31, 2017.

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.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the Center'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, based on our risk assessment for the years ended December 31, 2017 and 2016, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Payroll – gross wages
- General disbursements, travel expenditures and reimbursements
- Financial condition and fiscal sustainability
- Resident trust accounts
- Cash receipting – design of internal controls

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 McKay Healthcare and Rehabilitation Center continued to rely on registered warrants to cover daily operating costs.

Background

During prior audits, we noted that the Center relied on registered warrants from the Grant County Treasurer's Office to pay for 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.

Description of Condition

The Center began using registered warrants in 2009. Since then, the Center has consistently owed over \$300,000, with the balance increasing significantly in 2015. The Center's registered warrant balance has decreased in recent years, but remains over \$300,000.

Fiscal Year	Ending cash balance	Ending registered warrant balance
2011	\$ 20,675	\$ 391,511
2012	\$ 75,476	\$ 343,131
2013	\$ 89,821	\$ 417,843
2014	\$ 108,271	\$ 385,064
2015	\$ 90,546	\$ 1,288,590
2016	\$ 50,935	\$ 587,414
2017	\$ 147,376	\$ 517,363

The balance as of December 31, 2018, was \$215,118. However, as of May 2019, the registered warrant balance increased to \$352,649.

Cause of Condition

The Center had significant turnover in key administrative positions in prior years, which impeded management's ability to maintain a consistent strategy for addressing the Center's reliance on registered warrants. Center management changed again in 2015, bringing additional changes in admittance policies, fiscal practices, and a strategic plan to address the Center's financial condition. This

resulted in a decrease in the registered warrant balance from 2015; however, the balance still remained over \$500,000 in 2016 and 2017.

Effect of Condition

Unless it reduces its reliance on registered warrants, there is a risk that the Center could be unable to continue its current level of services or could have to stop operations. If the Center were to discontinue operations, Grant County could continue to levy, to the extent legally allowed, about \$250,000 in annual property tax until the debt to the County has been repaid.

Recommendations

We recommend the Center closely monitor and evaluate its strategic plan to ensure the plan is followed and the desired results achieved.

Center's Response

The SAO's report in the "Background" section states that registered warrants are used to pay daily operating costs. In the section on "Effect of Condition", the section begins with "unless it reduces its reliance on registered warrants," which implies that or at least creates confusion over whether registered warrants were used to pay daily operating expenses on an annual basis during the audit period. We would like to see this section revised to remove the inference.

In fact, after 2015 and throughout the audit period, McKay Healthcare has not relied on the use of additional registered warrants since the annual balance has declined each year. Specifically, McKay Healthcare's revenues exceeded expenses in 2016 by \$832,315, in 2017 revenues exceeded expenses by \$161,677, and in 2018 revenues again exceeded expenses by \$156,882. This has resulted in a net reduction of the net registered warrant balance from the high in 2015 by \$1,150,874 during the audit period and through 2018 demonstrating that registered warrants were not being used for daily operations on an annual basis.

The "Cause of the Condition" as described by the SAO report states that the "balance still remained over 500,000 in 2016 and 2017." However, the registered warrant balance during the audit period did not exceed the limit set by our County Commissioners. The ending registered warrant balance in 2018 was \$215,118. The net registered warrant balance as of May 2019 was \$352,649. This is a reduction of almost \$150,000 from the 2017 ending balance. The District continues to monitor the registered warrant balance on a monthly basis.

This Strategic Plan as suggested in the "Recommendations" section of the report will be closely monitored by the District. As a result of the actions taken under the

strategic plan, McKay Healthcare has reduced the registered warrant balance by 84% over the previous 3 years, despite the fact that the state Medicaid rate grossly underfunds the costs of service provided to a majority of McKay's residents. The Commission will continue to strive to reduce the registered warrant balance while balancing its obligation to meet the needs of the residents and staff.

We sincerely appreciate the SAO's interest in McKay Healthcare.

Auditor's Remarks

As mentioned in the description of condition, the Center's registered warrant balance in May of 2019 increased by about \$140,000 from the December 31, 2018 balance, demonstrating that additional registered warrants were issued to cover daily operating costs. Further, registered warrant activity provided by the Grant County Treasurer's Office showed the registered warrant balance decreasing to as low as \$100,000 at certain points in 2018 but again rising to nearly \$500,000 multiple times throughout the year, again demonstrating that additional registered warrants were issued throughout the year to pay for operations. While the County Commissioners have set a limit for McKay Healthcare's outstanding registered warrants balance, relying on registered warrants to pay for daily operating costs is itself a concern.

We appreciated the steps the Center has already taken to resolve this matter, such as creating a strategic plan, and we appreciate the Center's commitment to resolving this issue. We will review the status of this issue in the next audit.

RELATED REPORTS

Financial

Our opinion on the Center's financial statements is provided in a separate report, which includes the Center's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CENTER

Grant County Public Hospital District No. 4 owns and operates McKay Healthcare and Rehabilitation Center, a 42-bed nursing home. The Center serves the City of Soap Lake and neighboring areas in Grant County.

The Center is administered by an elected, five-member Board of Directors and an appointed Administrator. The Center's operating revenues were \$3.5 million and \$3.2 million in 2017 and 2016, respectively. Its approximately 50 employees provide services including skilled nursing and dietary care.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for McKay Healthcare and Rehabilitation 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.

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