



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# Kittitas County Public Hospital District No. 1 (Kittitas Valley Healthcare)

For the period January 1, 2018 through December 31, 2018

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

March 16, 2020

Board of Commissioners  
Kittitas Valley Healthcare  
Ellensburg, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor 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.

Attached is our independent audit report on the District'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,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## AUDIT RESULTS

### Results in brief

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

As referenced above, we identified areas in which the District could make improvements. These recommendations are included with our report as a finding.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

### About the audit

This report contains the results of our independent accountability audit of Kittitas Valley Healthcare from January 1, 2018 through December 31, 2018.

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 obtaining 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. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the year ended December 31, 2018, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts receivable – billings and adjustments
- Procurement – public works and professional services
- Accounts payable – general disbursements and electronic fund transfers
- Payroll – gross wage calculation and overtime
- Tenant Leases – contract compliance

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### **2018-001    The District did not have adequate internal controls to ensure it followed procurement requirements over architecture and engineering and public works projects.**

#### ***Background***

An elected five-member Board of Commissioners governs Kittitas Valley Healthcare, and the Chief Executive Officer oversees its daily operations. The District operates on an annual budget of about \$70 million.

When procuring architectural and engineering services, state law (RCW 39.80.040) requires local governments to publicly solicit qualifications from firms and then select, based upon criteria established by the agency, the firm deemed to be the most qualified to provide the services required for the project.

In addition, state law (RCW 70.44.140) requires the District to use a formal competitive process when procuring public works projects over \$75,000. As an alternative, state law and District policy allow the District to use a small works roster process for projects under \$300,000. When using the small works roster, the District must obtain quotations from at least five contracts on the roster.

#### ***Description of Condition***

The District paid three architecture and engineering firms for services totaling \$581,700 and \$161,600 in fiscal years 2018 and 2019, respectively. The District did not request proposals for services for the projects during the period, set evaluation criteria or demonstrate that it selected the most qualified firm for each project.

In addition, the District did not complete a formal competitive process or follow the small works roster requirements for one public works project totaling \$137,400 in 2018. Instead, the District obtained quotes from three contractors that were not on the small works roster.

#### ***Cause of Condition***

The District did not know state law requirements for the procurement of architects and engineers. Also, the District did not have a formal procurement process for soliciting architect and engineering firms to provide as guidance to employees.

For the 2018 public works project, the District could not identify any contractors on the small works roster that specialized in the services needed and did not know formal bidding was required in such cases.

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

When the District does not complete the formal procurement process for architecture and engineering services, it cannot guarantee that all interested firms had the opportunity to apply and that it awarded the contract to the most qualified firm.

By not adhering to competitive procurement requirements for public works projects, the District did not allow for full and open competition and cannot be sure it received the best price for the services.

### ***Recommendation***

We recommend the District establish internal controls over public works projects and architecture and engineering procurement requirements to ensure compliance with state procurement laws.

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

*Kittitas Valley Health has work with KDA Architecture for many years. KDA Architecture has many years of experience successfully designing healthcare facilities including facilities at Kittitas Valley Healthcare. Rules and regulations governing hospital construction projects are very specific and very few architecture firms are competent to perform this work. In addition, KDA Architecture firms are competent to perform this work. In addition, KDA Architecture is a firm with knowledge and relationships with locals Department of Health officials, city planners, and local contractors. These are important factors that are critical to successful completion of construction projects.*

*The District understood that a resolution has been previously adopted by the board that identified KDA as the architect of record for Kittitas Valley Healthcare. We were unable to locate the resolution.*

*Kittitas Valley Healthcare will take a resolution to the board that identifies KDA Architecture as a Qualifications Based Service provider under RCW 39.80. The hospital will periodically re-evaluate the qualifications based criteria for this service.*

*With regards to the small works roster, KVH will evaluate the roster annually and make sure that only vendors from the roster are used. If services from a vendor not on the small works roster are required, KVH will follow a competitive bidding process as required by RCW.*

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

We appreciate the District's commitment to improving the condition described above.

While we understand that experience and quality of previous performance is important in evaluating the qualifications of architect and engineering firms, we would like to reiterate that when procuring architect and engineering services, state law requires the District to publicly solicit qualifications from firms and then select, based upon criteria established by the agency, the firm deemed to be the most qualified to provide the services required for the project.

We reaffirm our finding and will follow up on the status of the finding during our next audit.

### ***Applicable Laws and Regulations***

RCW 39.80.030 – Agency's requirements for professional services – Advance publication.

RCW 39.80.040 – Procurement of architectural and engineering services – submission of statement of qualifications and performance data – participation by minority and women-owned firms and veteran-owned firms.

RCW 39.80.050 – Procurement of architectural and engineering services – Contract negotiations.

RCW 39.04.155 – Small works roster contract procedures – Limited public works process – Definitions.

## 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>.



## INFORMATION ABOUT THE DISTRICT

Kittitas County Public Hospital District No. 1, doing business as Kittitas Valley Healthcare, owns and operates a 25-bed acute care hospital in Ellensburg. Services offered by the District include medical, surgical, labor-delivery care, 24-hour emergency care, physical rehabilitation, home health, and radiology services. The District also operates KVH Orthopedics, KVH Family Medicine-Cle Elum, KVH Family Medicine-Ellensburg, KVH Women's Health, KVH Internal Medicine, KVH General Surgery, and KVH Workplace.

An elected, five-member Board of Commissioners governs the District. The Board appoints management to oversee the District's daily operations as well as its 500 employees. For the year under audit, the District operated on annual budgets of approximately \$70 million.

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 Kittitas Valley Healthcare 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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