



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Kennewick Public Hospital District No. 1

For the period January 1, 2019 through December 31, 2019

Published April 19, 2021

Report No. 1028060



Find out what's new at SAO
by scanning this code with
your smartphone's camera



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

April 19, 2021

Board of Commissioners
Kennewick Public Hospital District No. 1
Nashville, 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 value your cooperation during the audit.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

| | |
|--|---|
| Audit Results..... | 4 |
| Summary Schedule of Prior Audit Findings | 5 |
| Related Reports | 7 |
| Information about the District..... | 8 |
| About the State Auditor's Office..... | 9 |

AUDIT RESULTS

Results in brief

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

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 Kennewick Public Hospital District No. 1 from January 1, 2019 through December 31, 2019.

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 Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the District's use 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, 2019, 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 payable – general disbursements and electronic funds transfers
- Compliance with Adult Day Services loan agreement
- Compliance with bankruptcy reorganization plan
- Financial condition

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Kennewick Public Hospital District No. 1 January 1, 2019 through December 31, 2019

| | | |
|---|------------------------------------|--------------------------------------|
| Audit Period: 01/01/2017-12/31/2018 | Report Ref. No.: 1024554 | Finding Ref. No.: 2018-001 |
| Finding Caption: The District's reorganized operations and limited resources put it at risk of not meeting future financial obligations. | | |
| Background: Kennewick Public Hospital District No. 1 provided health care services to residents and operated two hospitals and seven clinics in 2017 and through August 2018. The District's operating revenue was about \$160 million and \$91 million in 2017 and 2018, respectively. However, for 2019, the District's annual revenue will be about \$1.3 million. In the past seven years, the District experienced various challenges regarding its financial condition, and in June 2017, the District filed Chapter 9 bankruptcy. In August 2018, the District sold its hospital, clinics, and operating equipment to a private company through the bankruptcy plan. The District then entered into a contract with the private company who provides health care services to the community. The District's remaining assets, which include parcels of land, have been committed to pay off creditors once sold. Although the District no longer operates a hospital or clinics, it still exists as a legally established public hospital district. And as such, under State law has the authority to collect property taxes to provide health care services to the community which it does through the contract agreement with the private company. Currently, the District collects about \$1.3 million in annual property tax revenues; the majority of this revenue is obligated to the private company for the healthcare services provided to the community. Aside from the bankruptcy requirements, the District does not have any outstanding debt other than its accounts payable. | | |
| Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between;"> <div> <input checked="" type="checkbox"/> Fully Corrected </div> <div> <input type="checkbox"/> Partially Corrected </div> <div> <input type="checkbox"/> Not Corrected </div> <div> <input type="checkbox"/> Finding is considered no longer valid </div> </div> | | |

Corrective Action Taken:

The District's operations and financial condition look very different from years past as a result of the restructuring and dramatic changes that occurred in 2018. Those changes resulted in a major shift in the District's method of meeting its statutory obligation to provide healthcare services for the residents of such District. The critical change was the District's shift from directly providing those services through a hospital owned and operated by the District, to contracting for those services from RCCH Health Care Partners/Trios (RCCH). The terms of how those services are to be performed and compensation were negotiated, agreed and confirmed by the Bankruptcy Court on June 20, 2018 and subsequent Asset Purchase Agreement with RCCH which closed on August 3, 2018. This Agreement with its required Court approval alone permitted the hospital to remain open to meet the needs of the District. The District operated on an annual budget of 166 Million in 2018. Our current budget for 2019 is \$1,431,441 and includes no operating income from operations and no employees.

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>. The firm reported a significant deficiency or material weakness in internal controls over financial reporting regarding preparation of the financial statements, audit adjustments and limited segregation of duties.

INFORMATION ABOUT THE DISTRICT

Kennewick Public Hospital District No. 1 is located in Kennewick, Benton County, Washington. The District changed its operations in July 2018. It now contracts with a private company, which has assumed the hospital facilities and clinics, to provide health care services to patients in Benton and Franklin Counties. The District contracts out for accounting and legal services and currently has no employees. The District is also the sole member of Adult Day Services, a non-profit daytime healthcare program serving adults with a variety of unique needs, including age-related, health-related, or developmental disabilities.

An elected, seven-member Board of Commissioners governs the District, which operates on an annual budget of about \$2.5 million; \$1.5 million is for hospital operations and \$1 million is for Adult Day Services.

Contact information related to this report

| | |
|------------|--|
| Address: | Kennewick Public Hospital District No. 1 P.O. Box 6974 Kennewick, WA 99336 |
| Contact: | Steve Blodgett, District Treasurer |
| Telephone: | (509) 579-4405 |
| Website: | https://kenkphd.com/ |

Information current as of report publish date.

Audit history

You can find current and past audit reports for Kennewick Public Hospital District No. 1 at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov