



Office of the Washington State Auditor  
Pat McCarthy

## Accountability Audit Report

# Whidbey Island Public Hospital District

(WhidbeyHealth)

For the period January 1, 2019 through December 31, 2020

*Published August 12, 2021*

Report No. 1028865



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

August 12, 2021

Board of Commissioners and CEO Ron Telles  
WhidbeyHealth  
Coupeville, 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***

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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 where the District could make improvements. These recommendations are included with our report as findings.

We also noted certain matters related to segregation of duties that we communicated to District management and the Board of Commissioners in a letter dated August 4, 2021. We appreciate the District's commitment to resolving those matters.

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 WhidbeyHealth from January 1, 2019 through December 31, 2020.

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 years ended December 31, 2020 and 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:

- Annual report filing – timeliness and completeness
- Financial condition
- Tracking and monitoring of theft sensitive assets
- IT security policies, procedures, practices and controls protecting financial condition

- Accounts payable – general disbursements
- Self-insurance for property, health and welfare, unemployment and workers compensation
- Open public meetings – documentation of minutes, executive sessions and special meetings

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### WhidbeyHealth January 1, 2019 through December 31, 2020

**2020-001 The District's internal controls over annual report filing were inadequate for ensuring submission of accurate and complete reports to the Office of the Washington State Auditor by the statutory deadline.**

#### *Background*

State law (RCW 43.09.230) requires local governments to submit an annual financial report to our Office within 150 days after their fiscal year ends.

The annual report includes financial statements, supporting schedules and notes. District management, the state Legislature, and state and federal agencies rely on annual reports to make financial decisions. Management is responsible for designing and following internal controls that provide reasonable assurance financial reports are accurate, complete, and submitted by the statutory deadline.

#### *Description of Condition*

The District does not have the necessary internal controls for guaranteeing annual reports are accurate, complete, and submitted by the statutory deadline. While the District submitted its 2019 annual report by the required deadline, it contained significant errors and was incomplete. The District has subsequently updated its 2019 annual report package multiple times as late as June 18, 2021. The District also filed an incomplete 2020 annual report on June 1, 2021.

The District contracts with a certified public accounting firm to perform its annual financial statement audit. However, the firm has not yet completed the audits for fiscal years 2019 and 2020, because of incomplete data.

We have reported similar concerns in our previous audits.

#### *Cause of Condition*

The District has not prioritized the preparation of accurate and complete financial statements. Additionally, turnover in key staff positions has affected the District's ability to submit annual reports by the statutory deadline.

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

The District has not yet completed its financial statement audit for fiscal years 2019 and 2020. Incomplete reports and audit results deprive citizens, the Legislature, and state and federal agencies of a transparent overview of the District's financial operations.

Without accurate and timely financial information, District management cannot assess its financial condition, make sound business decisions, detect significant issues or identify possible misappropriations.

### ***Recommendation***

We recommend the District establish the necessary internal controls for ensuring it submits accurate and complete financial reports to our Office by the statutory deadline. We also recommend the District prioritize the completion of its required annual financial statements.

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

*The District agrees with the audit finding and is working to establish internal controls to ensure the submission of accurate and complete financial reports. The District acknowledges that audits have not been completed timely and is making changes to ensure the timeliness of both audits and filings.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

RCW 42.09.230 Local government accounting – Annual reports – Comparative statistics.

**2020-002    The District’s internal controls over the monitoring, tracking and safeguarding of theft-sensitive assets are inadequate for preventing potential misuse and misappropriation of public property.**

***Background***

State law prohibits uncompensated gifting, lending or private benefit from public resources. Adequate controls must exist to safeguard public property from potential misappropriation and misuse.

The District’s total 2019 operating expenses was \$116 million. The District’s current asset policy defines theft-sensitive assets as property costing between \$750 to \$5,000 that is vulnerable to loss, such as communications equipment, cameras, computers, televisions, medical devices, etc. The District is responsible for establishing adequate internal controls for monitoring, tracking and safeguarding this property.

***Description of Condition***

The District took steps in 2017 to revise its asset policy. Changes included assigning responsibility to individual departments for tracking theft-sensitive assets, clarifying procedures for surplus and disposal, adding and removing assets from the master list, managing physical inventories, and segregating duties. However, the District has not finalized this policy yet to ensure departments properly implement these procedures. As a result, we noted the following issues:

- The District does not have procedures for identifying and recording the theft-sensitive assets staff have purchased. Furthermore, the District has not guaranteed staff are aware of their expanded responsibilities for tracking theft-sensitive assets.
- Although the District started a master list of theft-sensitive assets, items have subsequently added due to audit inquiries. The list only included assets purchased during fiscal year 2019, and it has not been updated since.
- The District has not performed physical inventory counts of the assets currently on the list.

These weaknesses were reported as management letter recommendations in fiscal years 2016, 2017 and 2018. The District has not fully addressed these weaknesses.

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

The District continues to experience turnover in key accounting positions. Additionally, the District has not finalized and implemented its draft asset policy.

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

The District does not have a process for identifying and tracking theft-sensitive assets, which makes it difficult to estimate the value of the property staff are required track and safeguard.

Although the District created its initial list of theft-sensitive assets in 2019, it only included 69 line items, valued at \$236,000, with no changes for prior or subsequent purchases. Using the District's list, we selected 12 theft-sensitive assets and the District was unable to locate 10 of the 12 items. As a result, the District is at an increased risk for property loss because staff cannot identify theft-sensitive assets, and does not know if assets have been misappropriated or purchased for personal use.

### ***Recommendation***

We recommend the District:

- Update its asset policy to include specific measures and staff responsibilities for identifying, tracking, safeguarding and inventorying theft-sensitive assets.
- Implement, follow, and communicate the updated asset policy to District staff.
- Perform and document physical inventory counts, reconcile asset disposals with the master list, and keep the master list updated to include all of the District's theft-sensitive assets.

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

*The District agrees with the audit findings regarding theft sensitive assets. The District takes very seriously, the safeguarding of public assets and is working diligently to correct the internal controls over the monitoring, tracking and safeguarding of theft-sensitive assets. In response to the cause of turnover, the District plans to put into place compensating controls, which will allocate the duties of this protection over all managers affected. Also, in response, the District has updated the policy to reflect the recommendations of the auditors to include staff responsibilities, and physical inventory requirements. The District will*

*utilizing its policy management system to implement and communicate the updated policy by requiring acknowledgement of all District managers responsible for theft control. These managers will perform physical inventories annually and the list will be updated to reflect the inventory count.*

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

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

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

The State Constitution in Article VIII section 7 and Article XI section 14 prohibits uncompensated gifting, lending or private benefit from public resources. Our Office would therefore expect adequate controls in place to safeguard public property from misappropriation and misuse.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### WhidbeyHealth January 1, 2019 through December 31, 2020

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2018 to December 31, 2018	<b>Report Ref. No.:</b> 1025939	<b>Finding Ref. No.:</b> 2018-001
<b>Finding Caption:</b> The District's internal controls over annual report filing were inadequate to ensure it submitted timely annual reports to the State Auditor's Office, as required by state law.		
<b>Background:</b> The annual financial report includes financial statements, supporting schedules and notes to the financial statements. Management is responsible for designing and following internal controls that provide reasonable assurance that financial reports are accurate and reliable and submitted promptly to our Office. The District did not have the necessary controls and procedures to ensure timely submission of the annual financial reports by the deadline. As of February 2020, the District had not filed its final fiscal year 2018 financial reports, which were due May 30, 2019, and had not completed its fiscal year 2018 financial statement audit performed by a certified public accountant (CPA) firm.		
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The District has added the timely filing to the internal control matrix, and implemented a software system to track task management, including timely filing of financials with the state auditor's office, fully integrated and automated accounting task management and access to information for auditors to conduct audits timely and without need for intensive resource consumption of scarce District staff. We have selected the status of partially corrected, as we have not had opportunity to fully utilize the new system and will not have used the system for the entire year until fiscal year end 2022.</i>		

## RELATED REPORTS

### Financial

Financial statement audits are performed by a firm of certified public accountants. That firm's 2018 report is available on our website, <http://portal.sao.wa.gov/ReportSearch>. The firm reported significant deficiencies or material weaknesses in internal controls over financial reporting regarding financial statement preparation, as well as reconciliation of accounts receivable and allowance by payer.

The District has not yet completed their financial statement audits for fiscal years 2019 and 2020.

## INFORMATION ABOUT THE DISTRICT

The Whidbey Island Public Hospital District, doing business as WhidbeyHealth Medical Center, is located in Island County. The District provides comprehensive health care that includes professional nurses, physicians and support staff in Coupeville, and seven provider locations on the north and south end of Whidbey Island that provide affordable quality healthcare to the residents of Whidbey Island.

The District is governed by an elected, five-member Board of Commissioners. The Board appoints a CEO to oversee the District's daily operations as well as its approximately 750 employees. In fiscal year 2019, the District operated on an expense budget of approximately \$116 million.

### Contact information related to this report

Address:	WhidbeyHealth 101 N. Main Street Coupeville, WA 98239-3413
Contact:	Jennifer L Reed, Director of Finance
Telephone:	(360) 678-7656
Website:	<a href="https://whidbeyhealth.org/">https://whidbeyhealth.org/</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the WhidbeyHealth 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](http://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.

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