



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

May 3, 2019

Board of Commissioners and Superintendent Anne Presson  
San Juan County Public Hospital District No. 3 DBA Orcas Island Health Care District  
PO Box 226  
Eastsound, WA 98245

We are pleased to confirm the audit to be performed by the Washington State Auditor's Office for the San Juan County Public Hospital No. 3 DBA Orcas Island Health Care District. This letter confirms the nature and limitations of the audit as well as responsibilities of the parties and other engagement terms.

**State Auditor's Office Responsibilities**

*Accountability Audit*

In accordance with RCW 43.09.260, we will perform an accountability audit for the fiscal year 2018 ended December 31, 2018 of the District's compliance with applicable state laws, regulations, policies and procedures, and safeguarding of public resources in areas representing the highest risk of fraud, loss, abuse, or noncompliance.

Areas will be selected for audit using a risk-based approach and will be identified in the audit entrance conference.

Upon completion of our audit we will issue a written report describing the overall results and conclusions for the areas we examined.

*Reporting Levels for Audit Issues*

Issues identified through the auditing process will be communicated as follows. Failure to appropriately address audit issues may result in escalated reporting levels.

- **Findings** formally address issues in an audit report. Findings report significant deficiencies and material weaknesses in internal controls; misappropriation; and material abuse or non-compliance with laws, regulations, contracts or grant agreements. You will be given the opportunity to respond to a finding, and this response, or a synopsis of it, will be published in the audit report.
- **Management letters** communicate control deficiencies, non-compliance or abuse with a less-than-material effect on the financial statements or other issues with significance to the audit objectives. Management letters are referenced, but not included, in the audit report.
- **Exit items** address control deficiencies or non-compliance with laws or regulations that have an insignificant or immaterial effect on the audit objectives, or errors with an immaterial effect on the financial statements. These issues are informally communicated to management, but do not warrant the attention of those charged with governance and are not referenced in the audit report.

### **Client's Responsibilities**

Management is responsible for the preparation and fair presentation of financial statements in accordance the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS) this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Our audit does not relieve management or the governing body of their responsibilities.

Management is also responsible for:

- Selecting and applying appropriate administrative and accounting policies.
- Establishing and maintaining effective internal controls over financial reporting, compliance, and safeguarding of public resources.
- Designing and following effective controls to prevent and detect fraud, theft, and loss.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Making all financial records and related information available to us.
- Identifying and providing copies of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented.
- Promptly reporting to us knowledge of any fraud, allegations of fraud or suspected fraud involving management, employees or others, in accordance with RCW 43.09.185.
- Providing us with a management representation letter that confirms certain representations, both express and implied, which we will request at the conclusion of our audit. This letter includes representations regarding legal matters.

Management will provide the State Auditor's Office with the information required for performing the audit and is responsible for the accuracy and completeness of that information. Management will notify the State Auditor's Office when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.

### **Management's Written Representations**

At the conclusion of our audit, we will also request certain written representations from you about the subject matter information and related matters, including items discussed above.

### **Estimated Audit Costs and Timeline**

We estimate the cost of the audit work to be \$5,000 plus estimated charges of \$450 for travel time, travel costs, and other expenses, if any, with work expected to commence by June 1, 2019. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be addressed to the District's governing body and published on our website [www.sao.wa.gov](http://www.sao.wa.gov) to be available to you and the public as outlined below. These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work. We will promptly notify you if this is the case.

<b>Report</b>	<b>Date*</b>
Independent Auditor's Report on Accountability	July 2019

*\*Report Issuance Dates Are Estimates Only*



The audit documentation for this engagement, which may contain confidential or sensitive information, is the property of SAO and constitutes a public record under Chapter 42.56 RCW. Subject to applicable laws and regulations, appropriate individuals, as well as audit documentation, will be made available upon request and in a timely manner to appropriate auditors and reviewers, District's management and governing body, and federal agencies, for purposes of a public records request, a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities.

The audit documentation for this engagement will be retained for a minimum of five years after the report release (publish) date in accordance with the public records retention schedule established by the Washington Secretary of State.

**Expected Communications**

During the course of the audit, we will communicate with Superintendent Anne Presson on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed.

Please contact us if, during the audit, any events or concerns come to your attention of which we should be aware. We will expect Anne to keep us informed of any such matters.

**Audit Dispute Process**

Please contact the Audit Manager or Assistant Director to discuss any unresolved disagreements or concerns you have during the performance of our audit. At the conclusion of the audit, we will summarize the results at the exit conference. We will also discuss any significant difficulties or disagreements encountered during the audit and their resolution.

By signing and returning this letter you acknowledge that the foregoing is in accordance with your understanding. Please contact us with any questions.

We appreciate the opportunity to be of service to you and look forward to working with you and your staff.

Sincerely,



May 3, 2019

Deena Garza  
Audit Manager, Washington State Auditor's Office

Date

**District Response:**

**This letter correctly sets forth our understanding.**

\_\_\_\_\_  
Board Member

\_\_\_\_\_  
Date

\_\_\_\_\_  
Anne Presson  
Superintendent

\_\_\_\_\_  
Date