



Office of the Washington State Auditor

Pat McCarthy

Exit Document: San Juan County Public Hospital District No. 3 DBA Orcas Island Health District

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independence and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

Audit Reports

We will publish the following report:

- Accountability audit for May 9, 2018 through December 31, 2018 - see draft report.

Audit Highlights

During the first year of formation, the District has already demonstrated a commitment to strong internal controls. The District Superintendent Anne Presson was extremely helpful, efficient and timely with all our requests for information.

Recommendations not included in the Audit Report

Exit Item

We have provided an exit recommendation below for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

Safeguarding of assets

The District purchased a new building and medical equipment during the audit period. These assets were then leased to a clinic provider. However, the District has not retained oversight ownership (such as a building key) and has not clearly documented how responsibility will be assigned for tracking, performing inventory, and maintaining the medical equipment.

We recommend that the District ensure that all their policies and procedures provide access to all their assets as well assignment of responsibility for the tracking, inventorying and maintaining of medical equipment assets.

Finalizing Your Audit

Report Publication

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this service at: <https://secureaccess.wa.gov/FIM2MFA/sps/sawmfaidp/saml20/login>

Representation Letter

We have requested a listing of management representations. We ask that management share the signed letter with the governing body.

Audit Cost

Within the engagement letter, we estimated the cost of the audit to be \$5,000 plus estimated travel expenses of \$400 and actual audit costs will be approximately \$4,000 with travel costs of \$170.

Your Next Scheduled Audit

Your next scheduled audit will be in 2020 and cover the following:

- Accountability for the period January 1, 2019 through December 31, 2019

The estimated cost for that audit is \$5,000 plus estimated travel expenses of \$400.

This preliminary estimate is provided as a budgeting tool and discussion item and not a guarantee of final cost.

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.

Working Together to Improve Government

Audit Survey

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

Local Government Support Team

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

The Center for Government Innovation

The Center is a resource for local governments that want to solve problems, innovate, and improve the value of their services to citizens. The Center is available by phone, online, or in person to offer assistance, programs, and tools – at no additional charge. You can contact the Center for more information at center@sao.wa.gov.

Questions?

Please contact us with any questions about information in this document or related audit reports.

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Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report
San Juan County Public Hospital
District No. 3
(Orcas Island Health Care District)

For the period May 9, 2018 through December 31, 2018

Published (Inserted by OS)

Report No. 1024366





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

Issue Date – (Inserted by OS)

Board of Commissioners
Orcas Island Health Care District
Eastsound, 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 District 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 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,

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

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

About the audit

This report contains the results of our independent accountability audit of Orcas Island Health Care District from May 9, 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 performing procedures to obtain 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.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, 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. The following areas were examined during this audit period:

- Accounts payable – general disbursements
- Payroll – gross wages
- Procurement – clinic building purchase
- Financial condition and fiscal sustainability

INFORMATION ABOUT THE DISTRICT

The San Juan County Public Hospital District No. 3, doing business as Orcas Island Health Care District, was formed by a special election of Orcas Island citizens in April 2018. At the same time, residents elected five Commissioners to govern the District all of whom were sworn in on May 8, 2018.

In the first year of operations, the District entered into a new Clinical Support Agreement (CSA) with Orcas Family Health Center, who runs a Rural Health Clinic. There was an existing relationship between the Orcas Medical Foundation (OMF) and UW Medicine (UW) to run a primary care clinic on the island, known as the UW Medicine Orcas Island Clinic. OMF also owned the medical clinic building within which UW was operating, as well as the equipment, and had an existing Lease Agreement with UW Medicine. Following the formation of the District, OMF sought to wind down their non-profit and transition their responsibilities and assets. To facilitate that process, the District purchased the clinic building, all of the medical equipment, and executed a new Lease Agreement with UW. The District also executed an Interim Funding Agreement which ensured UW continued to receive financial support while negotiating a longer-term CSA.

The District currently has one employee who serves in a largely administrative capacity. All of the Districts' revenues are generated by property tax, which became available in 2019. For the 2018 calendar year, which was the first year of District operations, the District secured an interlocal loan from San Juan County and closed a Limited Purpose General Obligation Bond with WA Fed. These funds were used to cover 2018 expenditures in the amount of \$614,619.

Contact information related to this report	
Address:	Orcas Island Health Care District P.O. Box 226 Eastsound, WA 98245
Contact:	Anne Presson, Superintendent
Telephone:	(415) 999-5611
Website:	www.orcashealth.org

Information current as of report publish date.

Audit history

You can find current and past audit reports for Orcas Island Health Care District 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.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD
(USE THIS TEMPLATE FOR BARS CASH BASIS AUDITS)

July 30, 2019

Elizabeth Corcoran
11 Bellwether Way, Suite 211
Bellingham WA 98225

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of San Juan County Public Hospital District No. 3 dba Orcas Island Health District for the period from May 9, 2018 through December 31, 2018. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

General Representations:

1. We have provided you with unrestricted access to people you wished to speak with and made available all relevant and requested information of which we are aware, including:
 - a. Financial records and related data.
 - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
 - d. Communications from regulatory agencies, government representatives or others concerning possible material noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
 - e. Related party relationships and transactions.
 - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all material events and transactions have been properly recorded in the financial records.

Board Representative

Anne Presson
Superintendent