



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Whidbey Island Public Hospital District

(WhidbeyHealth)

For the period January 1, 2021 through December 31, 2021

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

April 27, 2023

Board of Commissioners
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

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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 credit cards addressed in the management letter that we communicated to District management and the Board of Commissioners in a letter dated April 21, 2023. 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, 2021 through December 31, 2021.

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, 2021, 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 – credit cards
- Payroll – severance pay wages and separation agreements
- Annual report filing – timeliness and completeness
- Tracking and monitoring of theft sensitive assets

- Finance department - segregation of duties
- IT security policies, procedures, practices and controls protecting financial systems
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

WhidbeyHealth January 1, 2021 through December 31, 2021

2021-001 The District lacked adequate internal controls over financial reporting to ensure compliance with timely annual report submissions.

Background

Federal and state agencies, the Board of Commissioners, and the public rely on the information included in financial statements and reports to make decisions. The District is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

State law (RCW 43.09.230) requires the District to submit an annual financial report to the State Auditor's Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

Description of Condition

The District did not have the necessary internal controls for ensuring it submitted accurate, complete annual reports within 150 days of fiscal year-end.

This issue was reported as a finding in prior audits.

Cause of Condition

Turnover in key staff positions has affected the District's ability to submit annual reports by the statutory deadline. Additionally, the District contracts with a certified public accounting firm to perform its annual financial statement audit. However, due to the District providing incomplete data, the firm did not complete the audits for fiscal 2021 in a timely manner.

Effect of Condition

The District filed its financial report 190 days late for fiscal year 2021. Without accurate and timely financial information, management cannot assess the District's

financial condition to ensure there are no ongoing concerns, make sound business decisions, detect significant issues, or identify possible misappropriations.

During fiscal year 2022, the District experienced significant financial decline, and it has since taken steps to recover. The District experienced this decline in part due to the lack of accurate, up-to-date financial information. The lack of financial reports deprives citizens, the Legislature, and state and federal agencies of a transparent overview of the District's financial operations. Having accurate, timely financial reports continues to be essential for the District's ability to monitor its financial health.

Recommendation

We recommend the District establish the necessary internal controls to ensure it submits accurate, complete financial reports to our Office by the statutory deadline. We also recommend the District prioritize completing its required annual financial statements so they can be audited timely.

District's Response

The District recognizes that state law (RCW 43.09.230) requires the Whidbey Health to submit annual financial reports within 150 days after the end of its fiscal year. Further, it acknowledges inherent weaknesses within internal controls and financial reporting. However, the District has made structural improvements during 2022 as discussed within the Summary Schedule of Prior Audit Finding Corrective Action Taken section. These actions have improved transparency, financial reporting and financial stability to Whidbey Health.

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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

WhidbeyHealth January 1, 2021 through December 31, 2021

2021-002 The District lacked internal controls over the monitoring and tracking of theft-sensitive assets to ensure they were properly safeguarded.

Background

State law prohibits uncompensated gifting, lending or private benefit from public resources. To prevent such potential misappropriation and misuse, governments must establish adequate controls to safeguard public property.

The District's current asset policy defines theft-sensitive assets as property costing between \$1,000 to \$4,999.99 that is vulnerable to loss, such as communications equipment, cameras, computers, televisions and medical devices. The District is responsible for establishing adequate internal controls for monitoring, tracking and safeguarding these assets.

Description of Condition

In prior audits, we reported findings regarding the District's internal controls for safeguarding theft-sensitive assets. During the last audit, the District revised 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 current audit determined the District has not finalized this policy to ensure departments are aware of the procedures and can properly implement them. As a result, we noted the following issues:

The District revised the asset policy several years ago, but has not fully implemented it.

- The District does not have procedures for identifying and recording the theft-sensitive assets staff have purchased. Further, the District has not communicated the procedures to staff, so they do not know about their expanded responsibilities regarding these purchases.

- The District could not locate its prior theft-sensitive asset list, and it is in the process of creating a new one. As a result, the District has not tracked any new purchased assets since 2019.
- The District has not performed physical inventory counts of assets in recent years. The District requires physical inventory counts every three years with the exception of the Storeroom and Central Supply occurring annually, as per its draft policy.

Cause of Condition

The District experienced significant turnover in key accounting positions. As a result, management has been unable to dedicate the necessary time and resources to create a new master listing of theft-sensitive assets. Further, due to the turnover, the new finance staff did not know the District had updated its asset policy, but it was not yet finalized.

Effect of Condition

Without an established process to identify and track theft-sensitive assets, the District is unable to ensure its assets are accounted for and used for a valid business purpose rather than personal use.

This further increases the risk that theft-sensitive assets would be lost or misappropriated without being detected in a timely manner, if at all.

Recommendation

We recommend the District:

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

District's Response

The District acknowledges that adequate controls did not exist for theft-sensitive assets, primarily property costing between \$1,000 to \$4,999. However, the District has made structural improvements during 2022 as discussed within the Summary Schedule of Prior Audit Finding Corrective Action Taken section. These actions

will improve the identification of assets, asset management reporting and provide an inventory of these assets within Whidbey Health.

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



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

WhidbeyHealth January 1, 2021 through December 31, 2021

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

Audit Period: January 1, 2019- December 31, 2020	Report Ref. No.: 1028865	Finding Ref. No.: 2020-001
Finding Caption: 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: 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.		
Status of Corrective Action: (check one) <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>The District has instituted internal controls during 2022 to ensure that annual reports are accurate and complete. The board of commissioners hired HealthTec, an experienced hospital management team, which allows Whidbey Health to draw on additional healthcare experience to assist in healthcare performance improvement. The management team has addressed these concerns through segregation of duties and hiring accounting expertise to prepare and address material financial reporting concerns. Further, transactions occur only with management authorization in accordance with GASB. The accounting team has implemented internal controls for transparency to the community and to meet the statutory deadline for annual report filing with the Washington State Auditor.</i>		

Audit Period: January 1, 2019- December 31, 2020	Report Ref. No.: 1028865	Finding Ref. No.: 2020-002
Finding Caption: <p>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.</p>		
Background: <p>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:</p> <ul style="list-style-type: none"> • 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. <p>These weaknesses were reported as management letter recommendations in fiscal years 2016, 2017 and 2018. The District has not fully addressed these weaknesses.</p>		
Status of Corrective Action: (check one) <div> <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid </div>		
Corrective Action Taken: <p><i>Whidbey Health has addressed these findings and has implemented updated fixed asset policy and procedures (policy and procedure provided during audit).</i></p>		

RELATED REPORTS

Financial

A financial statement audit was performed by a firm of certified public accountants. That firm's report on fiscal year 2021 is available from WhidbeyHealth.

Federal grant programs

The District has not yet completed their federal single audit for fiscal years 2021.

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 primary care, specialty care and walk in clinics which provides 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 2020 and 2021, the District operated on an expense budget of approximately \$121.8 million and \$121.1 million. For fiscal years 2020 and 2021, the operating revenues were \$101 million and \$114 million.

Contact information related to this report

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Contact:	Philip Engle, Staff Accountant
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Website:	https://whidbeyhealth.org/

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. 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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