



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Grays Harbor County Public Hospital District No. 2

(Grays Harbor Community Hospital)

For the period January 1, 2019 through December 31, 2021

Published August 10, 2023

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

August 10, 2023

Board of Commissioners
Grays Harbor Community Hospital
Aberdeen, 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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TABLE OF CONTENTS

Audit Results.....	4
Schedule of Audit Findings and Responses.....	5
Related Reports	8
Information about the District.....	9
About the State Auditor's Office.....	10

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 a finding.

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 Grays Harbor Community Hospital from January 1, 2019 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 years ended December 31, 2021, 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:

- Self-insurance for health and welfare and unemployment
- Accounts payable – credit cards, travel expenditures and electronic funds transfers
- Selected IT security policies, procedures, practices and controls protecting financial systems – data backup and recovery, patch management and user access
- Procurement – purchases
- 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

Grays Harbor Community Hospital January 1, 2019 through December 31, 2021

2021-001 The District did not have adequate internal controls for ensuring compliance with state regulations for self-insurance.

Description of Condition

The District operates a self-insurance medical benefits program for its employees. For fiscal years 2019, 2020 and 2021, the District paid an average of 16,500 claims annually. The amount paid in claims for these years totaled about \$5.5 million, \$5.8 million and \$6.9 million, respectively.

State law authorizes local governments to operate self-insurance medical benefits programs under the approval and monitoring of the State Risk Manager. This regulatory oversight exists to ensure that self-insurance programs operate in a fiscally sound manner and can reliably pay promised benefits.

During our review of the District's self-insurance medical benefits program, we found the following:

- The District has operated its self-insurance program for many years without the State Risk Manager's approval. Under state law (RCW 48.62.071), local governments must obtain the State Risk Manager's approval before self-insuring for medical benefits. The State Risk Manager ensures compliance with laws and regulations designed to foster financially sound management practices.
- The District has not obtained a claims audit that state regulations require once every three years (WAC 200-110-120). These audits help ensure the District pays claims appropriately in accordance with program rules and regulations. We learned that the District's third-party administrator (TPA) has obtained a service organization control (SOC) report, which includes an examination of claims paid by the TPA. However, this SOC report is not specific to the District's claims alone, but rather to those of all organizations the TPA serves and may not include any of the District's claims.
- WAC 200-110-040 requires local governments to set aside enough cash and investments to pay for at least 16 weeks of expenses for a self-insurance medical benefits program. The District did not set aside these funds or account for them separately from its other resources.

Cause of Condition

The District operated a medical benefits self-insurance program for many years before it became a public hospital district in 2015. The District's collective bargaining agreements require it to provide medical insurance to its employees. District management said that new collective bargaining negotiations would have to take place in order to obtain the State Risk Manager's approval for the self-insurance program. District management has not made efforts to obtain the State Risk Manager's approval.

Effect of Condition

The District must submit a plan of management and operation as part of its application for approval by the State Risk Manager. Without review of this plan and formal approval by the State Risk Manager, the District cannot ensure that its medical benefits self-insurance program is being operated in a fiscally sound manner and in compliance with the rules and standards for management, operations, and contracting practices. Additionally, by not obtaining an independent claims audit, the District has less assurance that it is only paying for claims that are valid obligations according to the program's coverage provisions.

Since the District is not following state laws and regulations for medical benefits self-insurance programs, it may not have sufficient funds available to reliably pay medical benefits to employees.

Recommendation

We recommend the District:

- Obtain required approval from the State Risk Manager for its medical benefits self-insurance program
- Obtain claims audits in accordance with state regulations
- Set aside funds for program expenses in an amount that complies with state regulatory solvency requirements for self-insurance medical benefits programs

District's Response

The Hospital District is working with its plan administrator and outside consultants to update its self-insured medical plan and will submit it to the State Risk Manager for approval once completed.

The District will also engage an appropriate firm to conduct claims audits every three years as required by WAC 200-110-120.

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 43.09.200, Local government accounting – Uniform system of accounting.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control

RCW 48.62.071, Program approval required – State risk manager – Plan of management and operation.

WAC 200-110-120, Standards for claims management – Claims administration.

WAC 200-110-040, Standards for solvency – Program funding requirements.

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>.

INFORMATION ABOUT THE DISTRICT

Grays Harbor Public Hospital District No. 2 (also known as Grays Harbor Community Hospital or GHCH) is a comprehensive regional medical center located in Aberdeen. The District provides quality care to a region of over 70,000 residents covering the 2,000 square miles of Grays Harbor County. Established in 1959, Grays Harbor Community Hospital is licensed for 49 beds; services including a level-three trauma designated emergency department, critical care unit, surgical services and Family Birth Center. GHCH's outpatient services include diagnostic imaging, rehabilitation therapies, wound healing center, an ambulatory infusion center, surgical services and both primary care and specialty physician clinics. Medical staff includes physicians in family practice, internal medicine, pediatrics, obstetrics and gynecology, general and orthopedic surgery, and gastroenterology.

The District is governed by an elected, seven-member Board of Commissioners. The Board appoints the Chief Executive Officer who oversees the daily operations and approximately 550 employees. The District provides services to patients under contractual agreements with Medicare, Medicaid, and private insurance carriers.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for Grays Harbor Community Hospital 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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