



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Chelan County Public Hospital District No. 2

(Lake Chelan Health)

For the period January 1, 2021 through December 31, 2023

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

May 1, 2025

Board of Commissioners
Lake Chelan Health
Chelan, 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 a finding.

We also noted certain matters related to annual report filing and payroll that we communicated to District management and the Board of Commissioners in a letter dated April 22, 2025. 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 Lake Chelan Health from January 1, 2021 through December 31, 2023.

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, 2023, 2022 and 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:

- Cash receipting – timeliness and completeness of deposits
- Payroll – gross wages
- Accounts payable – general disbursements
- Accounts receivable – billing adjustments
- 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

Lake Chelan Health January 1, 2021 through December 31, 2023

2023-001 The District lacked adequate internal controls to ensure compliance with records retention requirements of personnel files

Background

District management is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance of compliance with state laws, policies and the safeguarding of public resources. District management is also responsible for retaining and protecting its original supporting documentation to prove the validity of every transaction involving public funds and property. This requirement extends to payroll records and personnel files.

Description of Condition

The District has 320 employees and total payroll expenditures of about \$14 million, \$15 million and \$17 million in fiscal years 2021, 2022 and 2023, respectively. The District lacked adequate internal controls to safeguard public documents.

During the audit period, the Human Resource department began to digitize personnel records. As a result, Human Resources staff were instructed to shred physical personnel files, but did not verify that the files were appropriately digitized before destroying them.

Cause of Condition

The District experienced turnover in multiple management positions, including the Human Resources manager. The former Human Resources manager did not obtain approval to change the District's practice of maintaining personnel records and as a result, District management did not know that Human Resources was digitizing records. Further, the lack of adequate oversight resulted in personnel files being destroyed without verifying that the records were retained electronically, if at all.

Effect of Condition

The District did not comply with state records retention requirements. District management estimates the personnel records of about 300 current and former employees could have been either partially or fully affected. Original supporting documentation, such as personnel files, are necessary for the District to document appropriate use of public funds and to demonstrate the validity of financial activity.

Recommendation

We recommend the District strengthen internal controls and develop procedures to effectively retain records to support its financial activity and comply with records retention schedules.

We further recommend the District prioritize the restoration of personnel files that were destroyed.

District's Response

In early February 2023 destruction of records was discovered by newly hired HR manager, HR manager asked that the destruction of records stop immediately. Two weeks after discovery the employee that was responsible for records destruction was no longer an employee at LCH. By March of 2023, records of access at the HR level were restricted and necessary steps were taken to remove risk of further destruction. It is nearly impossible to determine the overall effect of destruction as each employee file is uniquely different based on the job title, work history and many other factors. A risk assessment was completed to review impacts and determine how to move forward, which incorporated a remedial action that was implemented to aid in the recovery of files and documents as well as creation of all missing files and known documents and records. The district does not believe there was a lack of oversight at the administrative level as the previous HR Director, who is no longer employed, was not transparent with district administration regarding the district's employee file practices. Additionally, it is not the role of district administration to routinely review all employee files, nor is administration allowed to access employee files or verify that correct documentation is kept without a rare and significant reason.

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue, and we will follow up in our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

The *Budgeting, Accounting and Reporting System* (BARS) Manual, 3.1.4, Original Supporting Documentation, requires local governments to retain original vouchers, receipts and other documents to prove the validity of accounting transactions

RCW 40.14.070 Destruction disposition donation of local government records – Preservation for historical interest – Local records committee duties – Record retention schedules – Sealed Records establishes records retention 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, <https://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

A firm of certified public accountants evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs. That firm's report is available on our website, <https://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE DISTRICT

Lake Chelan Health includes the hospital, a clinic, and an ambulance service. The District is a critical Access Hospital (CAH) which opened a new hospital building during the year ended December 31, 2022. The opening of the new hospital at a total cost of approximately \$45.5 million dollars marked a significant milestone in the District's growth and commitment to providing exceptional health care services.

An elected, five-member Board of Commissioners governs the District. The Board appoints an Administrator-Chief Executive Officer to oversee the District's daily operations as well as its approximately 183 full time equivalents (FTEs). The District operated on a budget of approximately \$25.9 million, \$28.8 million and \$33.6 million in 2021, 2022 and 2023 respectively.

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 Lake Chelan Health at <https://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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