



## Office of the Washington State Auditor Pat McCarthy

October 22, 2021

Board of Commissioners and Superintendent Nathan Butler  
San Juan County Public Hospital District No. 1 dba Inter Island Medical Center and San Juan  
Emergency Medical Services  
PO Box 370  
Friday Harbor, WA 98250

We are pleased to confirm the audits to be performed by the Office of the Washington State Auditor, in accordance with the provisions of Chapter 43.09 RCW, for the Inter Island Medical Center and San Juan Emergency Medical Services. This letter confirms the nature and limitations of the audits, as well as responsibilities of the parties and other engagement terms.

### **Office of the Washington State Auditor Responsibilities**

#### *Financial Statement Audit*

We will perform an audit of financial statements of the Inter Island Medical Center and San Juan Emergency Medical Services as of and for the fiscal year ended December 31, 2020, prepared in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS). Our audit will be conducted with the objective of our expressing opinions on these financial statements.

We will perform our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. Since we do not review every transaction, our audit cannot be relied upon to identify every potential misstatement. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the standards identified above.

A financial statement audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers relevant internal controls in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we will express no such opinion.

Although our audit is not designed to provide an opinion on the effectiveness of internal control over financial reporting, we are required to report any identified significant deficiencies and material weaknesses in controls. We are also required to report instances of fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the accuracy of financial statements.

A financial statement audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

All misstatements identified by the audit will be discussed with management. Material misstatements corrected by management and all uncorrected misstatements will be communicated at the exit conference, as required by professional auditing standards.

Our responsibility is to express in a written report an opinion on the financial statements based on the results of our audit. We cannot guarantee an unmodified opinion. We may modify or disclaim an opinion on the financial statements if we are unable to complete the audit or obtain sufficient and appropriate audit evidence supporting the financial statements. If our opinion is other than unmodified, we will fully discuss the reason with you prior to issuing our report. Further, in accordance with professional standards, we may add emphasis-of-matter or other-matter paragraphs to our report to describe information that, in our judgment, is relevant to understanding the financial statements or our audit.

We will also issue a written report (that does not include an opinion) on issues identified during the audit related to the District's internal control over financial reporting and on compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*.

The District prepares supplementary information that accompanies the financial statements, which is required by the BARS Manual (*for Schedule of Liabilities*). We agree to perform auditing procedures on this information, with the objective of expressing an opinion as to whether it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

#### Accountability Audit

We will perform an accountability audit of compliance with applicable state laws, regulations, and policies, and of controls over the safeguarding of public resources for the fiscal years ended December 31 2020 and 2019. The audit will be conducted in accordance with provisions of RCW 43.09.260 and the Office's audit policies, which include policies specific to these types of audits and general audit policies. Our general audit policies apply to all our engagements and incorporate the requirements of *Government Auditing Standards*, as applicable, on topics such as communications with auditees, independence, audit evidence and documentation, and reporting.

An accountability audit involves performing procedures to obtain audit evidence about compliance and controls in areas selected for audit. In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. The areas examined and procedures selected depend on the auditor's judgment, including the assessment of the risks of fraud, loss, abuse, or noncompliance.

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

### Data Security

Our Office is committed to appropriately safeguarding the information we obtain during the course of the audit. We have entered into a data sharing agreement with the District to ensure compliance with legal requirements and Executive Directives (Executive Order 16-01, RCW 42.56 and OCIO Standard 141.10) in the handling of information considered confidential.

### 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 results of the audit, such as 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. Professional auditing standards define the issues we must report as findings with regard to non-compliance with a financial statement effect and internal controls over financial reporting.
- **Management letters** communicate control deficiencies, non-compliance, misappropriation, abuse, or errors with a less-than-material effect on audit objectives. Management letters are referenced, but not included, in the audit report.
- **Exit items** address control deficiencies, non-compliance, abuse, or errors that have an insignificant effect on audit objectives. These issues are informally communicated to management and are not referenced in the audit report.

### Client's Responsibilities

Management is responsible for the accuracy and completeness of information provided to the auditor and will provide the Office of the Washington State Auditor with:

- Unrestricted access to people with whom the auditor wishes to speak.
- All information that is requested or relevant to auditor requests.
- Notification when any documents, records, files, or data contain information that is covered by confidentiality or privacy laws, such as HIPAA.
- Adequate workspace and conditions, including interacting with auditors professionally and respectfully and promptly communicating about any issues and concerns.

Moreover, our audit does not relieve management or the governing body of their responsibilities. Management's responsibilities, with oversight from the governing body, include:

- 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.
- 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.
- Ensuring compliance with laws, regulations and provisions of contracts and grant agreements.
- Preparation and fair presentation of these financial statements in accordance with the cash basis *Budgeting, Accounting and Reporting System Manual* (BARS).
- Preparing the following supplementary information and providing us with certain written representations concerning the supplementary information:
  - Schedule of Liabilities in accordance the BARS Manual

- Including the auditor's report on the supplementary information in any document that both contains the supplementary information and indicates that the auditor reported on the supplementary information.
- Either presenting the supplementary information with the audited financial statements or, if the supplementary information will not be presented, making the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information and auditor's report thereon are issued.

**Responsibilities at the conclusion of the audit**

At the conclusion of our audit, the District will provide us with a letter to confirm in writing certain express and implied representations made during the course of the audit. This letter includes representations regarding legal matters. A separate letter may be needed from the District's legal counsel.

Management and the governing body are also responsible for following up and taking corrective action on all audit findings, including, when applicable, preparing a summary schedule of prior audit findings and a corrective action plan on the District's own letterhead.

**Estimated Audit Costs and Timeline**

We estimate the cost of the audit work to be \$25,500, plus other expenses, if any. Invoices for these services will be prepared and presented each month as our audit work progresses.

We anticipate our reports, which will be 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 Financial Statements	January 2022
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	January 2022
Independent Auditor's Report on Accountability	January 2022

*\*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 the District's selected audit liaison, Superintendent Nathan Butler, on the audit status, any significant changes in our planned audit scope or schedule and preliminary results or recommendations as they are developed. The audit liaison is responsible for regularly updating management and the governing body on these matters. We may also provide direct communication of these matters to management and the governing body as needed or at the District's request.

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



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Deena Garza, Audit Manager                    October 21, 2021  
Office of the Washington State Auditor

### **District Response:**

This letter correctly sets forth our understanding.

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Board of Commissioners Representative Date

Nathan Butler, Superintendent                    Date