



Federal Awards Reports in Accordance
with the Uniform Guidance
February 28, 2018

Faulkton Area Medical Center

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>	1
Independent Auditor’s Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs.....	8



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 *Government Auditing Standards*

To the Board of Directors
Faulkton Area Medical Center
Faulkton, South Dakota

We have audited, 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, the financial statements of Faulkton Area Medical Center, which comprise the balance sheet as of February 28, 2018 and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Faulkton Area Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Faulkton Area Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Faulkton Area Medical Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2018-B to be a significant deficiency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Faulkton Area Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Faulkton Area Medical Center's Response to Findings

Faulkton Area Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Faulkton Area Medical Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in black ink and is positioned above the printed address and date.

Sioux Falls, South Dakota
August 13, 2018



Independent Auditor’s Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Directors
Faulkton Area Medical Center
Faulkton, South Dakota

Report on Compliance for the Major Federal Program

We have audited Faulkton Area Medical Center’s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal program for the year ended February 28, 2018. The Organization’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for Faulkton Area Medical Center’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Faulkton Area Medical Center’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of Faulkton Area Medical Center’s compliance.

Opinion on the Major Federal Program

In our opinion, Faulkton Area Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended February 28, 2018.

Report on Internal Control over Compliance

Management of Faulkton Area Medical Center is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Faulkton Area Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Faulkton Area Medical Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2018-001 and 2018-002 that we consider to be material weaknesses.

Faulkton Area Medical Center's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Faulkton Area Medical Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Faulkton Area Medical Center as of and for the year ended February 28, 2018, and have issued our report thereon dated August 13, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
August 13, 2018

Faulkton Area Medical Center
 Schedule of Expenditures of Federal Awards
 Year Ended February 28, 2018

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>Department of Agriculture</u>			
Rural Development Program			
Community Facilities Loans and Grants	10.766		\$ 3,350,569
 <u>Department of Health and Human Services</u>			
Passed through the State of South Dakota			
Department of Health			
State Rural Hospital Flexibility Program	93.241	16SC090349	3,372
State Rural Hospital Improvement Grant Program	93.301	16SC090349	<u>1,014</u>
Total Department of Health and Human Services			<u>4,386</u>
Total Federal Financial Assistance			<u><u>\$ 3,354,955</u></u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Faulkton Area Medical Center under programs of the federal government for the year ended February 28, 2018. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Faulkton Area Medical Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Faulkton Area Medical Center.

Note B - Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E - Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Note C - Loans Outstanding

Total expenditures as reported on the schedule of expenditures of federal awards under the Rural Development Program Community Facilities Loans and Grants represents the beginning of the year loan balance of \$1,224,846 plus loan advances incurred during the year ended February 28, 2018 of \$2,125,723 for a total of \$3,350,597. As of February 28, 2018, the Organization has outstanding loans of \$3,276,391 with the United States Department of Agriculture.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Facilities Loans and Grants	10.766
Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**Finding 2018-A Preparation of Financial Statements, Preparation of Schedule of Expenditures of Federal Awards and Material Audit Adjustments
Material Weakness**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards (SEFA) that are materially correct and include all required disclosures.

Condition: The Organization does not have an internal control system designed to provide for the preparation of the full financial statements and schedule of expenditures of federal awards being audited. In addition, we proposed audit adjustments and reclassifications that would not have been identified as a result of the Organization's existing internal controls. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements and the SEFA.

Cause: The Organization has limited staff to prepare full disclosure financial statements and the SEFA.

Effect: There is a reasonable possibility that the Organization would not be able to draft the financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards that are correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Organization is aware of this condition for financial reporting purposes. Management and the board of directors should continually be aware of the financial accounting and reporting of the Organization and changes in the accounting and reporting requirements.

Views of Responsible Officials: Management agrees with the finding.

**Finding 2018-B Limited Size of Office Staff/Segregation of Duties
Significant Deficiency**

Criteria: In order to achieve a high level of internal control, the functions of executing transactions, recording transactions, and maintaining accountability for assets should be performed by different employees or be maintained under dual control.

Condition: The Organization does not currently have an internal control system to allow for proper segregation of duties in certain areas of the accounting function.

Cause: The Organization has limited staff and cannot justify staffing the number of positions necessary to have proper segregation of duties across all areas.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect and correct misstatements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that the Organization's office staff may not be large enough to assure optimal internal control, it is important that the Organization is aware of this condition. Under this condition, the most effective control is management and the board's oversight and knowledge of matters relating to the operations of the Organization.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**Finding 2018-001 Department of Agriculture
CFDA 10.766
Rural Development Program Community Facilities Loans and Grants**

**Allowable Activities and Allowable Costs
Material Weakness in Internal Control Over Compliance**

Criteria: The Organization must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Organization is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award.

Condition: Four invoices selected for testing did not have the required approval.

Cause: Lack of compliance with designed internal controls over disbursements allows for payment of expenditures that were not properly approved.

Effect: Without documentation of controls over disbursements, demonstrating that costs comply with laws, regulations and other compliance requirements is difficult.

Questioned Costs: None reported

Context: A nonstatistical sample of 3 draws out of 11 draws were selected for testing, which accounted for \$812,977 of \$2,125,723 of current year loan advances. The 3 draws selected for testing consisted of 9 individual invoices.

Repeat Finding from Prior Years: No

Recommendation: We recommend that adequate documentation be retained to support the approval of amounts charged to the grant.

Views of Responsible Officials: Management agrees with the finding.

**Finding 2018-002 Department of Agriculture
CFDA 10.766
Rural Development Program Community Facilities Loans and Grants**

**Procurement, Suspension, and Debarment
Material Weakness in Internal Control Over Compliance**

Criteria: The Organization must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Organization is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award. Management is responsible for establishing procedures for procurement of equipment, real property, and other services funded by federal funds. The procurement records and files for purchases in excess of the small purchase threshold shall include at the minimum:

1. Basis for contractor selection;
2. Justification for lack of competition when competitive bids are not obtained; and
3. Basis for award cost or price

In addition, award recipients must not utilize any vendor which is suspended or debarred or is otherwise excluded from the central contractor registry.

Condition: The Organization has no documented internal controls for compliance with the procurement, suspension and debarment compliance requirement of Uniform Guidance as noted above.

Cause: The Organization does not have a written policy related to procurement or established procedures in place related to suspension and debarment.

Effect: Inadequate controls over this area of compliance result in an environment where it is reasonable possible that the Organization would not have the required documentation in place and would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported.

Context: All vendors with expenditures in excess of \$25,000 (2 of 2) were selected for testing for suspension and debarment.

Repeat Finding from Prior Years: Yes, prior year finding 2017-001

Recommendation: We recommend that implementing a system of internal controls over the procurement, suspension and debarment compliance requirements.

Views of Responsible Officials: Management agrees with the finding.



*Faulkton
Area Medical
Center*

1300 Oak Street • PO Box 100 • Faulkton, SD 57438
Clinic/Hospital 605-598-6262
www.faulktonmedical.org

Management's Response to Auditor's Findings:
Summary Schedule of Prior Findings,
and Corrective Action Plan
2/28/18

Prepared by Management of
Faulkton Area Medical Center

Rooted in the Community, Growing to Meet Your Needs

This institution is an equal opportunity provider and employer.
If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form found online at <http://www.ascr.usda.gov/complaintfilingcusthtml>, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

Corrective Action Plan

Finding 2018-A

Initial Year Finding Occurred: 2017

Finding Summary: Eide Bailly LLP prepared our draft financial statements, accompanying notes to the financial statements, and schedule of expenditures of federal awards. They also proposed material audit adjustments and reclassifications that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Responsible Individuals: Susan Miller, CFO

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepared the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Finding 2018-B

Initial Year Finding Occurred: 2017

Finding Summary: The organization has a limited number of office personnel and, accordingly, does not have adequate segregation of duties in certain areas due to this condition.

Responsible Individuals: Susan Miller, CFO

Corrective Action Plan: We recognize that our office staff may not be large enough to assure optimal internal control and recognize that it is important that we are aware of this condition. Under this condition, our close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Anticipated Completion Date: Ongoing

Corrective Action Plan

Finding 2018-001

Federal Agency Name: Department of Agriculture

Program Name; Rural Development Program

CFDA # 10.766

Initial Year Finding Occurred: 2018

Finding Summary: Lack of compliance with designed internal control over disbursement allows for payment of expenditures that were not properly approved.

Responsible Individuals: Susan Miller, CFO

Corrective Action Plan: Previous responsible individual was both preparing and signing the checks. Therefore, there was no indication that invoices were approved as proper segregation of duties did not exist. Due to turnover and since no further USDA funds will be obtained, this finding is not relevant at this time.

Anticipated Completion Date: N/A

Finding 2018-002

Federal Agency Name: Department of Agriculture

Program Name; Rural Development Program

CFDA # 10.766

Initial Year Finding Occurred: 2017

Finding Summary: The organization does not have a written policy related to procurement or established procedures in place related to suspension and disbarment.

Responsible Individuals: Susan Miller, CFO

Corrective Action Plan: Due to turnover, this was never adopted. Since no further USDA funds will be obtained, this finding is not relevant at this time.

Anticipated Completion Date: N/A

Summary Schedule of Prior Audit Findings

Finding 2017-A

Initial Year Finding Occurred; 2011

Finding Summary: Eide Bailly LLP prepared our draft financial statements, the schedule of expenditures of federal awards, and accompanying notes to the financial statements. They also proposed material audit adjustments that would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Status: Ongoing. It is not cost effective to have an internal control system designed to Provide for the preparation of the financial statements.

Finding 2017-B

Initial Year Finding Occurred; 2011

Finding Summary: The Organization has a limited number of office personnel and, accordingly, does not have adequate segregation of duties in certain areas due to this condition.

Status: Ongoing. It is not cost effective to hire additional office personnel.

Finding 2017-001

Federal Agency Name: Department of Agriculture
Program Name; Rural Development Program
CFDA # 10.766

Initial Year Finding Occurred; 2017

Finding Summary: The Organization does not have a written policy related to procurement or established procedures in place related to suspension and disbarment.

Status: Due to turnover, this was never adopted. Since no further USDA funds will be obtained, this finding is not relevant at this time.

Summary Schedule of Prior Audit Findings

Finding 2017-002

Federal Agency Name: Department of Agriculture

Program Name; Rural Development Program

CFDA # 10.766

Initial Year Finding Occurred: 2017

Finding Summary: The required reserved account was not set up or funded commencing at the time of the loan closing. A reserves account in the amount of \$174,084 is required to be set up over a ten year period.

Status: 6/30/17 Complete

Finding 2017-003

Federal Agency Name: Department of Agriculture

Program Name; Rural Development Program

CFDA # 10.766

Initial Year Finding Occurred; 2017

Finding Summary: The Organization did not formally reconcile total project costs to the general ledger construction in progress account on a regular basis.

Status: 6/30/17 Complete