



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2021

Faulkton Area Medical Center

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**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 Faulkton Area Medical Center's balance sheet as of December 31, 2021, 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 July 20, 2022.

Report on 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) as a basis for designing 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.

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. 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.

Our consideration of internal control 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 or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be significant deficiencies.

Report on 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 financial statements. 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*.

The Center's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Faulkton Area Medical Center's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Faulkton Area Medical Center's responses were not subjected to the other 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
July 20, 2022



**Independent Auditor's Report on Compliance for the 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

Qualified Opinion

We have audited Faulkton Area Medical Center's (the Organization) compliance with the types of compliance identified as subject to the audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2021. 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.

Qualified Opinion on COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2021.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding Federal Financial Assistance Listing No 93.498, Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution as described in items 2021-005 and 2021-006 for Reporting.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with requirements applicable to that program.

Responsibility of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-005 and 2021-006. Our opinion on the major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 type of compliance requirement of a federal program 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-003, 2021-004, 2021-005 and 2021-006 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's responses to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the other 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 December 31, 2021, and have issued our report thereon dated July 20, 2022, 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota
September 27, 2022

Faulkton Area Medical Center
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Department of Health and Human Services			
COVID-19 Testing for Rural Health Clinics	93.697		\$ 149,461
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		3,321,823
COVID-19 HRSA Covid-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		11,420
Passed through South Dakota Department of Health Division of Administration			
Small Rural Hospital Improvement Grant Program	93.301	21SC093608	11,855
Total Department of Health and Human Services			3,494,559
Total Federal Financial Assistance			\$ 3,494,559

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Faulkton Area Medical Center (the Organization) under programs of the federal government for the year ended December 31, 2021. 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting, with the exception for the COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund (the Uninsured program), are based on when the claim is determined eligible evidenced by the receipt of monies from the federal agency. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

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

Note 4 – Provider Relief Funds

The Organization received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution program (Federal Financial Assistance Listing/CFDA #93.498) during the years ended December 31, 2021 and 2020. The Organization incurred eligible expenditures, including lost revenue, and therefore, recognized revenues totaling \$816,437 for the year ended December 31, 2020 and \$2,736,279 for the year ended December 31, 2021, on the financial statements. In accordance with the 2021 compliance supplement, the PRF expenditures recognized on the schedule are based on the reporting to HHS for Period 1, defined as payments received during April 10, 2020 to June 30, 2020, of \$3,321,823, and Period 2, defined as payments received during July 1, 2020 to December 31, 2020 of \$0, as required under the PRF program. Unexpended funds of \$403,831, plus interest of \$15,853, were returned to HHS.

Faulkton Area Medical Center
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

The following summarizes the Provider Relief funds and the timing of when the amounts were recognized in the financial statements:

<u>Federal Department/Program Title/Grant Name</u>	<u>Federal Financial Assistance Listing/Federal CFDA Number</u>	<u>Amounts Recognized in Accordance with GAAP for the Year Ended December 31, 2020</u>	<u>Amounts Recognized in Accordance with GAAP for the Year Ended December 31, 2021</u>
Department of Health and Human Services Health Resources and Services Administration			
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 1 (included in 2021 Schedule)	93.498	\$ 816,437	\$ 2,505,388
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 4 (not included in 2021 Schedule)	93.498	-	230,891
Total COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution		<u>\$ 816,437</u>	<u>\$ 2,736,279</u>

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
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	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 (a) :	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing/CFDA Number</u>
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498
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

**2021-001 Preparation of Financial Statements and Financial Statement Adjustments
Significant Deficiency**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements 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 financial statements being audited. As auditors, we proposed audit adjustments that would not have been identified as a result of the Organization's existing internal controls, and therefore could have resulted in misstatements to the financial statements. We were also requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Organization has limited staff. They cannot justify incurring the costs necessary for preparing the financial statements with accompanying notes to the financial statements.

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 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.

Management's Response: Since it is not cost effective for an organization of our size to prepare audit ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare our financial statements as part of the annual audit. We have designated a member of management to review the propriety of the draft financial statements and accompanying notes to the financial statements. We will review journal entries proposed and identify controls to help mitigate the risks of errors to the financial statements.

2021-002

**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 have an internal control system designed to allow for proper segregation of duties in certain areas of the accounting function.

Cause: The Organization has limited staff. They cannot justify incurring the costs necessary of hiring additional individuals in order to better segregate accounting duties.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect and correct misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing the assigned functions.

Recommendation: Due to the small size of the office, the Organization is limited in the options available to them. Under this situation, the most effective control is management and the board's oversight and knowledge of matters related to the operations of the Organization.

Management's Response: We have evaluated the segregation of duties and have segregated duties to the extent possible with our available staff. Management and the Board of Directors will continue to exercise oversight of the accounting functions, which we believe mitigates the risk of material misstatement. Due to the Organization's size and other cost considerations, we believe the cost of any further controls would outweigh the related benefits.

Section III – Federal Award Findings and Questioned Costs

2021-003

Department of Health and Human Services

CFDA #93.498

COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year – Period 1 TIN #363317416

Preparation of the Schedule of Expenditures of Federal Awards

Material Weakness in Internal Control Over Compliance - Other

Criteria: Proper controls over financial reporting include the ability to prepare the schedule of expenditures of federal awards (schedule) and accompanying notes to the schedule.

Condition: The Organization does not have an internal control system designed to provide for the preparation of the schedule. As auditors, we were requested to assist with the preparation of the schedule.

Cause: Auditor assistance with preparation of the schedule is not unusual as the schedule has unique and specialized requirements and preparation is only required when the Organization meets a specified threshold of federal expenditures.

Effect: There is reasonable possibility that the Organization would not be able to draft the schedule that is correct without the assistance of the auditors.

Questioned Costs: None reported.

Context: Sampling was not used.

Repeat Finding from Prior Years: No

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, we recommend management be aware of the financial reporting requirements relating to the Organization's schedule of expenditures of federal awards and the internal controls that impact financial reporting.

Views of Responsible Officials: Management agrees with the finding

2021-004

Department of Health and Human Services

CFDA #93.498

COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year – Period 1 TIN #363317416

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting
Material Weakness in Internal Control Over Compliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: The Organization's final expenditure listing identified as eligible and claimed under the Provider Relief Fund program were not reviewed and approved by a separate individual outside of the preparer. In addition, the Organization's special report submitted to the Department of Health and Human Services for Period 1 TIN #363317416 was not reviewed and approved by a separate individual outside of the preparer.

Cause: The Organization did not have an internal control process in place to ensure a secondary review and approval of eligible expenditures that were summarized from the underlying supporting spreadsheets to the final expenditure listing was documented. The summary spreadsheet was used to claim allowable costs under the federal program. In addition, the review and approval of the report submitted to the Department of Health and Human Services for Period 1 was not performed by someone other than the preparer of the report.

Effect: Without a secondary review and approval, there is a possibility that ineligible expenditures may be claimed under the program and the report may not be accurately completed.

Questioned Costs: None reported.

Context: Summary level testing was performed over general and administrative expenses and healthcare related expenses, including mortgage/rent, insurance, information technology, utilities/operations, other general and administrative expenses, facilities and information technology for activities allowed and unallowed and allowable costs/cost principles. In addition, a nonstatistical sample of 60 transactions totaling \$470,917 out of \$1,003,612 were detail tested for activities allowed or unallowed and allowable costs/cost principles. Key line items were tested on the Period 1 Department of Health and Human Services special report.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Organization implement a control process which includes a secondary review and approval of the summarized final expenditure listing used to claim the allowable costs under the federal program and secondary review and approval of required reports to be submitted to the federal agency.

Views of Responsible Officials: Management agrees with the finding.

2021-005

**Department of Health and Human Services
Federal Financial Assistance Listing/CFDA #93.498
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Applicable Federal Award Number and Year – Period 1 TIN#363317416**

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Material Weakness in Internal Control over Compliance and Noncompliance**

**Reporting
Material Weakness in Internal Control over Compliance and Material Noncompliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award. The Organization selected option 1 to calculate lost revenue which consists of a comparison of 2019 actual results to 2020 and 2021 actual results by quarter. Patient care-related revenue should be reported net of adjustments for all third-party payers, charity care adjustments, bad debt, and any other discounts or adjustments, as applicable when reporting patient care-related revenue sources.

Condition: The Organization's lost revenue calculation was not reviewed and approved by a separate individual outside of the preparer. The Organization's lost revenue calculation did not take into consideration all audit adjustments for fiscal years 2019 and 2020 on quarterly net patient service revenue and excluded the bad debt and charity care adjustments for each of the years presented.

Cause: The Organization did not have an internal control process in place to ensure a secondary review and approval of the lost revenue calculation. The Organization did not consider agreeing the net patient revenue for each quarter to the audited financial statements.

Effect: The lost revenue reported within the special report submitted to the Department of Health and Human Services for Period 1 was \$384,833. If the Organization considered all audit adjustments for fiscal years 2019 and 2020, and bad debt and charity care adjustments in the lost revenue calculation during the period of availability, the lost revenue would have been \$348,790.

Questioned Costs: \$36,043 - Lost revenue reported would decrease after consideration of quarterly adjustments to net patient revenue, including audit adjustments and bad debt and charity care adjustments. Key line items on the Period 1 report overstated lost revenue by \$36,043.

Context/Sampling: 10 of the 10 key line items were tested on the Period 1 Department of Health and Human Services special report relating to lost revenue had differences.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Organization implement a control process which verifies that lost revenue is reconciled with the audited financial statements, includes consideration of available audit adjustments by quarter, and includes a secondary review and approval of the calculation.

Views of Responsible Officials: Management agrees with the finding.

2021-006

**Department of Health and Human Services
Federal Financial Assistance Listing/CFDA #93.498
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Applicable Federal Award Number and Year – Period 1 TIN#363317416**

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Material Weakness in Internal Control over Compliance and Noncompliance**

Reporting

Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: There was no documentation relating to repairs and maintenance, utilities, information technology, insurance, capital lease principal and interest and mortgage principal and interest expenses from January 2020 that supported the costs were necessary to prevent, prepare for, or respond to the coronavirus.

Cause: The guidance relating to allowable costs was unclear relating to general and administrative expenses incurred in quarter 1 of 2020 prior to the start of when the Organization first started preparing for coronavirus.

Effect: There is a possibility that ineligible expenditures are claimed under the program and included within the special report. Expenses included within the special report submitted to the Department of Health and Human Services for Period 1 TIN#363317416 relating to the January 2020 expenses were overstated by \$79,809.

Questioned Costs: \$79,809 - Key line items on the Period 1 report overstated Provider Relief Fund expenses by this amount.

Context/Sampling: Summary level testing was performed over mortgage/rent, insurance, information technology, utilities/operations, other general and administrative expenses, facilities and information technology. In addition, a nonstatistical sample of 60 transactions totaling \$470,917 out of \$1,003,684 were detail tested relating to supplies, personnel and benefits and equipment were tested.

Repeat Finding from Prior Years: No

Recommendation: We recommend management document their consideration of allowability of future expenditures to ensure they are in accordance with the terms and conditions of the award.

Views of Responsible Officials: Management agrees with the finding.

Management's Response to Auditor's Findings:
Corrective Action Plan
December 31, 2021

Prepared by Management of
Faulkton Area Medical Center



Faulkton Area Medical Center

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Faulkton, SD 57438
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Hospital 605-598-6262 • Fax 605-598-4199
www.faulktonmedical.org

Corrective Action Plan

Finding 2021-001

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

Responsible Individual: 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 2021-002

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

Responsible Individual: Susan Miller, CFO

Corrective Action Plan: It is not cost effective to have additional personnel for the sole purpose of segregating duties. Management and the Board will provide oversight.

Anticipated Completion Date: Ongoing

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/>, 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 2021-003

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year: Period 1 TIN #363317416

Federal Financial Assistance Listing #: CFDA #93.498

Compliance Requirement: Preparation of the Schedule of Expenditures of Federal Awards

Finding Summary: Eide Bailly prepared our schedule of expenditures and accompanying notes.

Responsible Individual: Susan Miller, CFO

Corrective Action Plan: Due to the infrequency and complicated nature of this type of required reporting, Organization will consult Eide Bailly to provide assurance of accuracy and completeness of reporting.

Anticipated Completion Date: Ongoing, as applicable.

Finding 2021-004

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year: Period 1 TIN #363317416

Federal Financial Assistance Listing #: CFDA #93.498

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting Material Weaknesses in Internal Control Over Compliance

Finding Summary: The Organization's expenditure listing and special report submitted to DHHS for Period 1 were not reviewed and approved by a separate individual outside of the preparer.

Responsible Individual: Susan Miller, CFO

Corrective Action Plan: All future expenditure listings and report submissions will be reviewed and approved by the Organization's CEO prior to submission.

Anticipated Completion Date: Ongoing, as applicable.

Corrective Action Plan

Finding 2021-005

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year: Period 1 TIN #363317416

Federal Financial Assistance Listing #: CFDA #93.498

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Material Weakness in Internal Control over Compliance and Noncompliance
Reporting

Material Weakness in Internal Control over Compliance and Material Noncompliance

Finding Summary: The Organization's lost revenue calculation was not reviewed and approved by a separate individual. Patient Care-related revenue was not reported net of charity and bad debt adjustments and did not take into consideration all audit adjustments for fiscal years 2019 and 2020 on quarterly net patient service revenue.

Responsible Individual: Susan Miller, CFO

Corrective Action Plan: Due to the infrequency and complicated nature of this type of required reporting, the Organization will consult Eide Bailly to provide assurance of accuracy and completeness of reporting prior to report submission in the future. The CEO will review and approve all reports prior to submission.

Anticipated Completion Date: Ongoing, as applicable.

Finding 2021-006

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Applicable Federal Award Number and Year: Period 1 TIN #363317416

Federal Financial Assistance Listing #: CFDA #93.498

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Material Weakness in Internal Control over Compliance and Noncompliance
Reporting

Material Weakness in Internal Control over Compliance and Material Noncompliance

Finding Summary: Expenses from January 2020 were included in the Organization's report submitted to DHHS prior to the start of when the Organization first started preparing for coronavirus.

Responsible Individual: Susan Miller, CFO

Corrective Action Plan: Due to the infrequency and complicated nature of this type of required reporting, the Organization will consult Eide Bailly to provide assurance of accuracy and completeness of reporting prior to report submission in the future. The CEO will review and approve all reports prior to submission.

Anticipated Completion Date: Ongoing, as applicable.