



Federal Awards Reports in Accordance  
with the Uniform Guidance  
December 31, 2018

**Community Memorial Hospital, Inc.**

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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  
Community Memorial Hospital, Inc.  
Burke, 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 Community Memorial Hospital, Inc. (the Hospital) which comprise the balance sheet as of December 31, 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 March 25, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital’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 the Hospital’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital’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 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital'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*.

**The Hospital's Responses to Findings**

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Hospital'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 result 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 cursive script that reads "Eide Sallie LLP".

Sioux Falls, South Dakota  
March 25, 2019



**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  
Community Memorial Hospital, Inc.  
Burke, South Dakota

**Report on Compliance for the Major Federal Program**

We have audited Community Memorial Hospital, Inc.’s (the Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital’s major federal program for the year ended December 31, 2018. The Hospital’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 the Hospital’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 programs occurred. An audit includes examining, on a test basis, evidence about the Hospital’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 the Hospital’s compliance.

**Opinion on the Major Federal Program**

In our opinion, the Hospital 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 for the year ended December 31, 2018.

## **Report on Internal Control over Compliance**

Management of the Hospital 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 the Hospital'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 Hospital'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 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 were not identified. We identified a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-003 that we consider to be a material weakness.

The Hospital's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Hospital's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Hospital as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019, 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 Sallee LLP*

Sioux Falls, South Dakota  
March 25, 2019

Community Memorial Hospital, Inc.  
 Schedule of Expenditures of Federal Awards  
 Year Ended December 31, 2018

| Federal Grantor/Pass-Through<br>Grantor/Program or Cluster Title | Federal<br>CFDA<br>Number | Pass-through<br>Entity<br>Identifying<br>Number | Expenditures | Amounts<br>Passed-<br>Through to<br>Subrecipients |
|--|---------------------------|---|--------------|---|
| <u>Department of Agriculture</u>                                 |                           |   |              |   |
| Rural Development Program  |                           |   |              |   |
| Community Facilities Loans and Grants                            | 10.766                    |   | \$ 4,687,307 | \$ -  |
| <u>Department of Health and Human Services</u>                   |                           |   |              |   |
| Passed through the State of South Dakota                         |                           |   |              |   |
| Department of Health   |                           |   |              |   |
| Small Rural Hospital Improvement Grant                           | 93.301                    | 18SC093002                                      | 6,524        | -   |
| Small Rural Hospital Improvement Grant                           | 93.301                    | 19SC093003                                      | 2,193        | -   |
| Total Department of Health and Human Services                    |                           |   | 8,717        | -   |
|  |                           |   | \$ 4,696,024 | \$ -  |



**Note A – Basis of Presentation**

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

**Note B - Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. 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 C - Significant Accounting Policies**

The Hospital has not elected to use the 10% de minimis cost rate.

**Note D - 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 \$890,007 plus loan advances incurred during the year ended December 31, 2018 of \$3,797,300. As of December 31, 2018, the Hospital has outstanding loans of \$4,519,655 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 | None Reported |
| 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                 |

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**Section II – Financial Statement Findings**

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**2018-001                    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 Hospital 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. As auditors, we proposed material audit adjustments that would not have been identified as a result of the Hospital's existing internal controls, and therefore could have resulted in a material misstatement to the financial statements. We assisted with the adjustments relating to the construction project. We were also requested to draft the financial statements and accompanying notes to the financial statements and the SEFA.

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

*Effect:* There is a reasonable possibility that the Hospital would not be able to draft the financial statements and accompanying notes to the financial statements and SEFA 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 Hospital 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 Hospital and changes in the accounting and reporting requirements.

*Views of Responsible Officials:* Management agrees with the finding.

**2018-002                    Limited Size of Office Staff/Segregation of Duties**  
**Material Weakness**

*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 Hospital does not currently have an internal control system to allow for proper segregation of duties in certain areas of the accounting function, as well as oversight and review of the cash, investment, and long-term debt account reconciliations, monthly journal entries, accounting for promises to give and net asset classifications, and estimated third-party payor settlements.

*Cause:* The Hospital 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 Hospital'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 Hospital's office staff may not be large enough to assure optimal internal control, it is important that the Hospital 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 Hospital.

*Views of Responsible Officials:* Management agrees with the finding.

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### Section III – Federal Award Findings and Questioned Costs

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2018-003

**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 Hospital must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Hospital 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 documentation for purchases in excess of the small purchase threshold shall include evidence that price or rate quotations were obtained from an adequate number of qualified sources.

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 Hospital has not documented their internal controls for compliance with the procurement, suspension and debarment compliance requirement of Uniform Guidance as noted above.

The Hospital does not have a written policy related to procurement or written standards of conduct for employees involved in contracting, awarding contracts only to responsible contractors, and maintaining records to document history of procurement, as well as, established procedures in place related to suspension and debarment. As a result:

- For contracted vendors with expenditures in excess of \$25,000, the Hospital did not retain the vendor's certification regarding debarment and suspension prior to entering into the covered transaction with the vendor.

- For contracted vendors paid in excess of \$3,500, the Hospital did not document or retain evidence that price or rate quotations were obtained from an adequate number of qualified sources.

*Cause:* The Hospital was relying on the policies and approved vendor list of their management company when selecting vendors. The Hospital did not have a process in place to monitor compliance with suspension and debarment requirements.

*Effect:* Inadequate controls over this area of compliance result in a reasonable possibility that the Hospital 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:* Procurement requirements were applicable to 18 transactions of which 6 were selected for testing. Suspension and Debarment requirements were applicable to 4 transactions of which 3 were selected for testing.

*Repeat Finding from Prior Years:* Yes

*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.

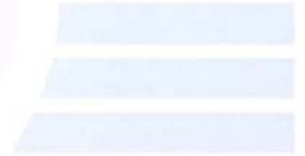
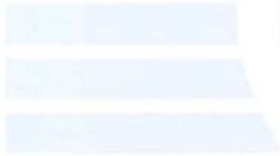


**Community Memorial Hospital**

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Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
December 31, 2018

Prepared by Management of  
**Community Memorial Hospital, Inc.**



Yellow Book

*Finding 2017-A*

*Initial Fiscal Year Finding Occurred: 2011*

*Finding Summary:* Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards (SEFA). 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 and accompanying notes to the financial statements and the schedule of expenditures of federal awards. We will continue to have our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit.

*Finding 2017-B*

*Initial Fiscal Year Finding Occurred: 2011*

*Finding Summary:* An internal control system is not in place to allow for proper segregation of duties in certain areas of the accounting function.

*Status:* Ongoing. It is not cost effective to have an internal control system designed to allow proper segregation of duties across all areas due to limited staff. We will continue to evaluate areas that can be improved depending on staffing availability and restructure.

Single Audit

*Finding 2017-001*

*Federal Agency Name: Department of Agriculture*

*Program Name: Rural Development Program Community Facilities Loans and Grants  
CFDA # 10.766*

*Initial Fiscal Year Finding Occurred: 2017*

*Finding Summary:* A written policy related to the procurement, suspension and debarment was not created prior to the project starting. Community Memorial Hospital was unaware of this requirement prior to engaging in the project. There was no follow up with the construction manager company to make sure all debarments were collected by each contractor prior to signing the contract and engaging in business with the vendor with expenditures in excess of \$25,000. Documentation was not retained on a contracted vendor for architectural services paid in excess of \$100,000 on the basis for selection for the project.

*Status:* A written policy for procurement, suspension and debarment was adopted effective August 1, 2017, however policy did not meet compliance requirements. The Hospital has obtained all suspensions and debarment certifications as of September 18, 2017.

Management checks all vendors on SAM.gov or OIG.lhs.gov to document compliance with procurement, suspension and disbarment. However, a review process over suspension and debarment was not implemented. See 2018-002.

*Finding 2017-002*

*Federal Agency Name: Department of Agriculture*

*Program Name: Rural Development Program Community Facilities Loans and Grants*

*CFDA # 10.766*

*Initial Fiscal Year Finding Occurred: 2017*

*Finding Summary:* The Hospital must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Hospital is managing the federal awards in compliance with federal statutes, regulations and terms and conditions of the federal award. The Hospital did not implement a draw process and did not prepare draw request forms related to its federal expenditures.

*Status:* A draw request form was created to instruct the USDA representative how much money to advance monthly from the available funds. The draw request form includes information regarding the time frame of the invoices being paid, date funds requested, amount of pay app and also the amount of invoices paid directly to vendors from Community Memorial Hospital. The CFO, CEO and USDA representative all review and sign the draw request prior to submission for reimbursement.



Yellow Book

*Finding 2018-001*

*Finding Summary:* Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards (SEFA). 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.

*Responsible Individuals:* Tami Lyon, Business Office Manager

*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 to the financial statements and the schedule of expenditures of federal awards. 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 and agree with the material adjustments proposed during the audit.

*Anticipated Completion Date:* Ongoing

*Finding 2018-002*

*Finding Summary:* An internal control system is not in place to allow for proper segregation of duties in certain areas of the accounting function.

*Responsible Individuals:* Tami Lyon, Business Office Manager

*Corrective Action Plan:* It is not cost effective to have an internal control system designed to allow proper segregation of duties across all areas due to limited staff. Depending on staffing availability and some restructure, we plan to complete more internal audits/analysis of accounts to detect errors more timely.

*Anticipated Completion Date:* Ongoing

Single Audit

*Finding 2018-003*

*Federal Agency Name:* Department of Agriculture

*Program Name:* Rural Development Program Community Facilities Loans and Grants

*CFDA #* 10.766

*Finding Summary:* A written policy related to the procurement, suspension and debarment was not created. For contracted vendors with expenditures in excess of \$25,000, the Hospital did not retain the vendor's certification regarding debarment and suspension prior to entering into the covered transaction with the vendor. For contracted vendors paid in excess of \$3,500, the Hospital did not document or retain evidence that price or rate quotations were obtained from an adequate number of qualified sources.

*Responsible Individuals:* Mistie Sachtjen, Administrator/CEO

*Corrective Action Plan:* Community Memorial Hospital intends to implement a review process for all vendors to document compliance over procurement, suspension, and debarment.

*Anticipated Completion Date:* July 1, 2019. Project is near completion. Future federally funded goods or services will follow the policy, when applicable