



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2022

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., which comprise the balance sheet as of December 31, 2022 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 June 12, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Community Memorial Hospital, Inc.'s internal control over financial reporting (internal control) as the 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 Community Memorial Hospital, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Memorial Hospital, Inc.'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*.

Community Memorial Hospital, Inc.'s Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Community Memorial Hospital, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Memorial Hospital, Inc.'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 "Eide Bailly LLP".

Sioux Falls, South Dakota
June 12, 2023



**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

Opinion on the Major Federal Program

We have audited Community Memorial Hospital, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Community Memorial Hospital, Inc.'s major federal program for the year ended December 31, 2022. Community Memorial Hospital, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Community Memorial Hospital, Inc. 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, 2022.

Basis for Opinion on the Major Federal Program

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 Community Memorial Hospital, Inc. 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 Community Memorial Hospital, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities 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 Community Memorial Hospital, Inc.'s federal programs.

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 Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'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 Community Memorial Hospital, Inc.'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.

Report on 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 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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 Community Memorial Hospital, Inc. as of and for the year ended December 31, 2022, and have issued our report thereon dated June 12, 2023, 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.



Sioux Falls, South Dakota
June 12, 2023

Community Memorial Hospital, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal Financial Assistance Listing Number | Pass-through Entity Identifying Number | Expenditures |
|---|--|---|---------------------|
| Department of Agriculture | | | |
| Community Facilities Loans and Grants Cluster | | | |
| Community Facilities Loans and Grants Loan | | | |
| Hospital Revenue Bonds - Series 2016 | 10.766 | | \$ 3,493,856 |
| Community Facilities Grant Agreement | 10.766 | | <u>265,283</u> |
| Total Department of Agriculture | | | <u>3,759,139</u> |
| Department of Health and Human Services | | | |
| COVID-19 Testing for Rural Health Clinics | 93.697 | | 11,022 |
| COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution | 93.498 | | 318,855 |
| COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund | 93.461 | | 11,495 |
| Passed through South Dakota Department of Health Division of Healthcare Access & Quality and Health Protection COVID Rural Health Research Centers | 93.155 | 22SC093205 | 258,376 |
| Passed through South Dakota Department of Health Division Of Administration Small Rural Hospital Improvement Grant Program | 93.301 | 22SC093605 | 12,836 |
| Passed through South Dakota Department of Health Division of Family and Community Health Organized Approaches to Increased Colorectal Cancer Screening | 93.800 | 22SC091994 | <u>5,190</u> |
| Total Department of Health and Human Services | | | <u>617,774</u> |
| Total Federal Financial Assistance | | | <u>\$ 4,376,913</u> |

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Community Memorial Hospital, Inc. under programs of the federal government for the year ended December 31, 2022. 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 Community Memorial Hospital, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Community Memorial Hospital, Inc.

Note 2 – 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 (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

Community Memorial Hospital, Inc. has not elected to use the 10% de minimis cost rate.

Note 4 – Community Facilities Loan

Expenditures reported in this schedule consist of the beginning of the year outstanding loan balance for the direct loan. There were no loan advances during the year ended December 31, 2022. The outstanding balance at December 31, 2022 was \$3,214,147 for the direct USDA loan.

Note 5 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Community Memorial Hospital, Inc. received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) and American Rescue Plan Rural Distribution (ARP) program (Federal Financial Assistance Listing #93.498) during the years ended December 31, 2022 and 2021. Community Memorial Hospital, Inc. incurred eligible expenditures, and therefore, recognized revenues totaling \$0 and \$2,191,200 for the years then ended December 31, 2022 and December 31, 2021, respectively, on the financial statements. In accordance with the 2022 Compliance Supplement, the PRF expenditures recognized on the schedule are based on the reporting to HHS for Period 3, defined as payments received during January 1, 2021 to June 30, 2021 and Period 4, defined as payments received during July 1, 2021 to December 31, 2021 of \$317,204, plus interest earned of \$1,651, as required under the PRF program. Community Memorial Hospital, Inc. did not receive funding during Period 3.

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 | No |
| 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 (a): | No |

Identification of major programs:

| <u>Name of Federal Program</u> | <u>Federal Financial Assistance Listing</u> |
|---|---|
| Community Facilities Loans and Grants Cluster | 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

**2022-001 Preparation of Financial Statements, Adjustments and Restatement, Preparation of
Schedule of Expenditures of Federal Awards
Material Weakness**

Criteria: Proper controls over financial reporting include a system designed to provide for the presentation of financial statements, the schedule of expenditures of federal awards (the schedule) and accompanying notes to the financial statements and schedule that are materially correct in accordance with accounting principles generally accepted in the United States of America.

Condition: The Hospital does not have an internal control system designed to provide for the preparation of the full financial statements or the schedule being audited. As auditors, we proposed material audit adjustments and accumulated passed adjustments relating to estimated third-party payor settlements, property and equipment, accounts payable, deferred revenues, current portion of long-term debt, net assets, patient and resident service revenue, contribution revenue, and expenses 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. In addition, there was a correction of an error required related to the estimated third-party payor settlements, resulting in a restatement of the previously issued financial statements. We were also requested to draft the financial statements, the schedule, and accompanying notes to the financial statements and schedule.

Cause: Auditor assistance with preparation of the financial statements is not unusual in an organization the size of the Hospital. In addition, the preparation of the schedule is unique and has specialized requirements and the preparation is only required when the Hospital meets a specified threshold of federal expenditures.

Effect: The preparation of the financial statements as a part of the audit engagement may result in financial statements and accompanying notes to the financial statements not being available for management purposes as timely as if the financial statements were prepared by the Hospital's personnel. There is a reasonable possibility that the Hospital would not be able to draft the schedule and accompanying notes to the schedule 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.

Management's Response: Management agrees with the finding.

2022-002

Segregation of Duties
Material Weakness

Criteria: A proper system of internal control includes processes and procedures that are designed and implemented so that the functions of execution of transactions, recording of transactions and accountability for assets be performed by different individuals to detect, prevent, and correct misstatements to the financial statements in a timely manner.

Condition: During the year, the chief financial officer handled multiple accounting functions, including posting transactions to the general ledger, preparing monthly reconciliations, and posting manual adjusting journal entries, resulting in a lack of segregation of duties.

Cause: The finance office has limited staff.

Effect: During the year, multiple accounting functions, including posting transactions and manual adjusting journal entries to the general ledger and preparing monthly reconciliations were performed without direct oversight.

Recommendation: We recommend management continue to be involved in the internal control process through the review of reconciliation procedures, as appropriate, to maintain an effective control structure, to ensure these procedures are being properly completed on a timely basis.

Management's Response: It is not cost effective to maintain segregation of duties. Key areas will be segregated as they are able. The Board of Directors will also have oversight over management.