



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2019

Avera Health

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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
Avera Health
Sioux Falls, 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 consolidated financial statements of Avera Health (Organization), which comprise the consolidated balance sheets as of June 30, 2019, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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*.

Avera Health's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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.



Sioux Falls, South Dakota
November 4, 2019



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

The Board of Directors and Management
Avera Health
Sioux Falls, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Avera Health’s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization’s major federal programs for the year ended June 30, 2019. The Organization’s major federal programs are 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 Organization’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’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 each major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness and certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-004 to be a material weakness.

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 2019-002, 2019-003, 2019-005, and 2019-006 to be significant deficiencies.

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

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

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

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2019, and have issued our report thereon dated October 18, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

Sioux Falls, South Dakota

November 4, 2019, except for our report on the consolidated schedule of expenditures of federal awards, for which the date is October 18, 2019.

Avera Health
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title		Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Health and Human Services</u>					
Telehealth Programs	(1)	93.211		\$ 1,122,386	\$ 93,204
Trans-NIH Research Support	(1) , (2)	93.310		3,367,180	1,064,066
Child Health and Human Development					
Extramural Research	(1) , (2)	93.865		317,915	13,986
Rural Health Care Service Outreach, Rural Health Network and Small Health Care Provider Quality Program		93.912		191,485	9,193
Passed through South Dakota Department of Health					
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers		93.044	Not Received	2,239	-
Public Health Emergency Preparedness		93.069	EM041219; EM05016	1,510	-
State Rural Hospital Flexibility Program		93.241	EM041118	18,000	-
Immunization Cooperative Agreements		93.268	EM041219; EM05016	15,417	-
Small Rural Hospital Improvement Grant Program	(3)	93.301	EM091118	91,530	-
Organized Approaches to Increase Colorectal Cancer Screening		93.800	EM041118; EM042417	27,899	
Increasing the Implementation of Evidence-Based Cancer Survivorship Interventions to Increase Quality and Duration of Life Among Cancer Patients		93.808	EM092717	19,186	-
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities		93.817	GOA122115	4,656	-
National Bioterrorism Hospital Preparedness Program		93.889	EM041118; EM042417	173,279	-
Preventive Health and Health Services Block Grant		93.991	Not received	3,974	-
Maternal and Child Health Services Block Grant to the States		93.994	EM041219; EM05016	13,465	-
Passed through Minnesota Department of Health					
Small Rural Hospital Improvement Grant Program	(3)	93.301	Not received	19,434	-
Passed through Mayo Clinic					
Minority Health and Health Disparities Research	(1) , (2)	93.307	WFA-191862-02	24,887	-
Passed through NRG Foundation					
Cancer Treatment Research	(1) , (2)	93.395	Not received	12,125	
Passed through South Dakota Department of Social Services					
Child Care and Developmen Block Grant		93.575	Not received	5,000	-
Total for Department of Health and Human Services				<u>5,431,567</u>	<u>1,180,449</u>

See Notes to the Consolidated Schedule of Expenditures of Federal Awards

Avera Health
 Consolidated Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Corporation for National and Community Service</u> Training and Technical Assistance	94.004		\$ 23,469	\$ -
Total for Corporation for National and Community Service			<u>23,469</u>	<u>-</u>
<u>Department of Agriculture</u> Distance Learning and Telemedicine Loans and Grants Passed through South Dakota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.855		128,045	-
	10.557	EM05016 EM041219	<u>37,210</u>	<u>-</u>
Total for Department of Agriculture			<u>165,255</u>	<u>-</u>
<u>Department of Justice</u> Passed through South Dakota Department of Social Services Crime Victim Assistance	16.575	19SC084663	30,680	-
Passed through the National Children's Alliance Domestic Trafficking Victim Program	16.834	Not Received	<u>385</u>	<u>-</u>
Total for Department of Justice			<u>31,065</u>	<u>-</u>
<u>Department of Transportation</u> Passed through Nebraska Department of Roads Formula Grants for Rural Areas	20.509	NE-2017-013-00; NE-2018-015-00; NE-2016-008-00	<u>241,202</u>	<u>-</u>
Total for Department of Transportation			<u>241,202</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 5,892,558</u>	<u>\$ 1,180,449</u>

- (1) Denotes a major program
- (2) Total for the Research and Development cluster is \$3,722,107
- (3) Subtotal for Federal CFDA Number 93.301 is \$110,964

Note 1 - Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of Avera Health (Organization) under programs of the federal government for the year ended June 30, 2019. 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 consolidated balance sheet, consolidated changes in net assets or consolidated cash flows of the Organization.

Note 2 - Principles of Consolidation

The consolidated schedule of expenditures of federal awards includes the federal grant activity of Avera Health and its sponsored organizations (Organization) which received federal financial assistance. Significant intercompany balances and transactions have been eliminated in the consolidated schedule of expenditures of federal awards.

Note 3 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting, except for subrecipient expenditures, which are recorded on the cash basis. 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.

Note 4 - Indirect Cost Rate

Avera Health and Avera McKennan have negotiated indirect rates. All other sponsored organizations of the Organization have elected to use the 10% de minimis cost rate.

Note 5 - WIC Special Supplemental Nutrition Program for Women, Infants, and Children

Federal reimbursements for the WIC Special Supplemental Nutrition Program for Women, Infants, and Children, CFDA #10.557, are not based upon specific expenditures. Therefore, the amounts reported in the consolidated schedule of expenditures of federal awards represent cash received rather than federal expenditures.

Section I - Summary of Auditor's Results

CONSOLIDATED FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weakness	Yes
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 Circular 2 CFR 200.516:	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Research and Development Cluster	
Minority Health and Health Disparities Research	93.307
Trans-NIH Research Support	93.310
Cancer Treatment Research	93.395
Child Health and Human Development Extramural Research	93.865
Telehealth Programs	93.211
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

2019-001

**Preparation of Consolidated Financial Statements and Eliminating Journal Entries
Significant Deficiency**

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries material to the consolidated financial statements, as well as the ability to prepare consolidated financial statements and accompanying notes to the consolidated financial statements that are materially correct.

Condition: The Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes. As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. In addition, adjustments were recorded to intercompany eliminations in the consolidation process.

Cause: Management has elected to have the consolidated financial statements and footnotes prepared by Eide Bailly LLP as part of the audit.

Effect: The preparation of the consolidated financial statements as a part of the audit engagement may result in consolidated financial statements and accompanying notes to the consolidated financial statements not being available for management purposes as timely as it would be if prepared by Organization personnel.

Recommendation: Management and the Board should continually be aware of the financial reporting of the Organization and changes in reporting requirements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor's involvement in its consolidated financial statements condition because of cost or other considerations.

Views of Responsible Officials: Management agrees with the finding and accepts the risk associated with assistance with preparation of the consolidated audited financial statements by the independent auditor.

Section III - Federal Award Findings and Questioned Costs

2019-002

**Department of Health and Human Services
CFDA #93.307, WFA-191862-02, 04/01/2018 – 03/31/2019
Research and Development Cluster**

**Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance**

Criteria: The Organization is required to establish and maintain effective internal controls over federal awards that provide reasonable assurance that the Organization is managing the federal awards in compliance with Subpart E – Cost Principles of the Uniform Guidance and terms and conditions of the federal awards; are supported by appropriate documentation; and are charged correctly as to account, amount, and period.

Condition: As a result of our disbursements testing, we identified one instance where personnel costs for a contracted employee were overcharged to the program by an insignificant amount due to a calculation error.

Cause: The Organization implemented controls over contracted employee personnel costs charged to the program; however, there was one instance where a calculation error in a reconciliation resulted in the program being charged an incorrect amount for the services provided.

Effect: The Organization's controls did not detect or correct the error, which results in a reasonable possibility that the Organization could submit disallowed costs under the federal awards and would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: None reported.

Context: A non-statistical sample of 120 of 1,895 payroll and nonpayroll disbursement transactions was selected for testing, which accounted for \$170,344 of \$1,883,546 of federal program expenditures. Sampling was not used for subrecipient payments and indirect costs tested totaling \$1,838,561.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the Organization review and strengthen the controls surrounding the review and approval of allowable costs.

Views of Responsible Officials: Management agrees with the finding.

2019-003

Department of Health and Human Services

CFDA #93.211, G01RH32150, 09/01/2018 – 08/31/2019

CFDA #93.211, G25RH32402, 09/30/2018 – 09/29/2019

CFDA #93.211, H1WRH31446, 09/30/2017 – 08/31/2018, 09/01/2018 – 08/31/2019

CFDA #93.211, H2ARH30287, 09/01/2018 – 08/31/2019

Telehealth Programs

Activities Allowed and Allowable Costs

Significant Deficiency in Internal Control over Compliance

Criteria: The Organization is required to establish and maintain effective internal controls over federal awards that provide reasonable assurance that the Organization is managing the federal awards in compliance with Subpart E – Cost Principles of the Uniform Guidance and terms and conditions of the federal awards; are supported by appropriate documentation; and are charged correctly as to account, amount, and period.

Condition: As a result of our disbursements testing, we identified the following:

- 1) There were three instances where a timecard was not approved by the individual's supervisor and payroll costs were charged to the program.
- 2) There were three instances where a time card was not approved by an individual other than the employee.
- 3) There were two instances where expenditures charged to the program did not agree with amounts supported by the employee expense reimbursement documentation.
- 4) There was one instance where use tax related to a different cost center was charged to the program.
- 5) There was one instance where documentation retained to support an expense reimbursement was not readable due to a scanning error and original documentation was not retained to support a portion of the expense reimbursement. In addition, the full expense reimbursement was charged to the program twice.

Cause: The Organization implemented manual as well as automated controls over review and approval of employee time cards. If the supervisor does not approve the time cards by the payroll system approval deadline, the timecards are reviewed through payroll system automated controls, if no critical exceptions are found, the timecards are then processed by payroll. There were three instances where an employee approved her own timecard as the supervisor. The Organization implemented controls over review and approval of expense reimbursements, but the review process did not detect the inconsistencies in the supported amounts and the amounts charged or duplicate amounts charged. The Organization implemented controls over expenditures charged to the program but the control did not detect or correct the use tax being charged to the program in error.

Effect: The Organization's controls did not detect or correct the errors identified, which results in a reasonable possibility that the Organization could submit disallowed costs under the federal awards and would not be able to detect and correct noncompliance in a timely manner.

Questioned Costs: Questioned costs were insignificant.

Context: A non-statistical sample of 124 of 1,098 payroll, nonpayroll, and subrecipient disbursement transactions was selected for testing, which accounted for \$178,367 of \$991,469 of federal program expenditures. Sampling was not used for indirect costs tested totaling \$130,917.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the Organization review and strengthen the controls surrounding the review and approval of allowable costs.

Views of Responsible Officials: Management agrees with the finding.

2019-004

Department of Health and Human Services

CFDA #93.211, G01RH27868, 09/01/2017 – 08/31/2019

CFDA #93.211, G01RH32150, 09/01/2018 – 08/31/2019

CFDA #93.211, G25RH32402, 09/30/2018 – 09/29/2019

CFDA #93.211, H1WRH31446, 09/30/2017 – 08/31/2018, 09/01/2018 – 08/31/2019

CFDA #93.211, H2ARH30287, 09/01/2017 – 08/31/2018, 09/01/2018 – 08/31/2019

Telehealth Programs

Reporting

Material Weakness in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal controls over the federal awards that provide assurance that the entity is managing the federal awards in compliance with federal statutes, regulations, and the conditions of the federal award. 2 CFR 200.327 and 2 CFR 200.328 require the auditee to collect financial information and monitor its activities under federal awards to assure compliance with applicable federal requirements, to assure performance expectations are being achieved, and to report these items in accordance with program requirements.

Condition: Through testing of federal cash transaction reports, we noted reported cash disbursements included only expenditures that had been reimbursed and not the amount of cash expenditures incurred during the reporting period that were not yet reimbursed. Additionally, we identified one instance where the amounts reported for an annual progress report were not supported by the Organization's records. We also identified one instance where the number of encounters reported in a noncompeting continuation report were not supported by the Organization's records.

Cause: The Organization implemented review and approval procedures covering submission of the quarterly federal cash transaction reports; however, there was a misinterpretation of the instructions relating to the amounts that were required to be reported on the cash disbursements line of the quarterly federal cash transaction reports. The Organization implemented controls over the annual progress reports and noncompeting continuation reports, however, data was reviewed after the submission of the reports resulting in discovery of duplicate items in the data that were then removed. The reports were not amended after discovery of the duplicative items.

Effect: The expenditures were not reported in the correct quarter on the quarterly federal cash transaction reports. The annual progress reports were misstated by insignificant amounts due to the duplicate items being included in error.

Questioned Costs: None reported.

Context: A non-statistical sample of 8 reports of 34 reports were selected for reporting testing.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the Organization review and strengthen the controls surrounding the federal requirements relating to reporting and include expenditures incurred during the reporting period that are not yet reimbursed on the quarterly federal cash transaction reports.

Views of Responsible Officials: Management agrees with the finding

2019-005

Department of Health and Human Services

CFDA #93.211, G01RH27868, 09/01/2017 – 08/31/2019

CFDA #93.211, H2ARH30287, 09/01/2017 – 08/31/2018, 09/01/2018 – 08/31/2019

Telehealth Programs

Subrecipient Monitoring

Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.331(d) establishes that the auditee must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with federal statutes, regulations, and terms and conditions of the subaward.

Condition: The Organization did not retain documentation to support the ongoing review of the subrecipient risk assessment being performed. Additionally, we noted one instance where the Organization did not retain documentation to support the initial risk assessment being performed on a subrecipient.

Cause: The Organization implemented monitoring controls to ensure risk assessments were being performed over subrecipients to comply with federal requirements; however, documentation was not retained in two instances to support the procedures being followed.

Effect: Without retention of supporting documentation, demonstrating that the program complies with laws, regulations, and other compliance requirements is difficult.

Questioned Costs: None reported.

Context: Sampling was not used.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the Organization review and strengthen the controls surrounding subrecipient monitoring and documentation retention.

Views of Responsible Officials: Management agrees with the finding.

2019-006

Department of Health and Human Services

CFDA #93.211, G01RH32150, 09/01/2018 – 08/31/2019

CFDA #93.211, G25RH32402, 09/30/2018 – 09/29/2019

CFDA #93.211, H1WRH31446, 09/30/2017 – 08/31/2018, 09/01/2018 – 08/31/2019

Telehealth Programs

Special Tests and Provisions

Significant Deficiency in Internal Control over Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal controls over the federal awards that provide assurance that the entity is managing the federal awards in compliance with federal statutes, regulations, and the conditions of the federal award. The notices of award for the Telehealth program grants limit the salary amount that may be awarded and charged to HRSA grants to the Federal Executive Pay Scale Level II rate. None of the awarded funds may be used to pay an individual's salary at a rate in excess of this rate.

Condition: One individual with a pay rate in excess of the Federal Executive Pay Scale Level II rate that was not capped in accordance with the requirements.

Cause: The Organization was aware of the salary cap limitation threshold and implemented controls covering this requirement, but the controls in place did not detect the employee whose pay rate was in excess of the Federal Executive Pay Scale Level II rate.

Effect: The Organization's controls did not detect or correct the error, leading to salary costs of \$9,240 being charged in excess of the limitation.

Questioned Costs: None reported.

Context: Sampling was not used.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the Organization review and strengthen the controls surrounding compliance with the special tests and provisions noted above.

Views of Responsible Officials: Management agrees with the finding.

Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
June 30, 2019

Prepared by Management of
Avera Health

**Finding 2018-A Preparation of Consolidated Financial Statements and Eliminating Journal Entries
Significant Deficiency**

Initial Fiscal Year Finding Occurred: 2012

Finding Summary: The Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes. As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. In addition, adjustments were recorded to intercompany eliminations in the consolidation process.

Status: Ongoing. The Organization has centralized finance and accounting functions and is working toward one of the centralization goals of gaining the ability to internally prepare consolidated financial statements.

**Finding 2018-001 Department of Health and Human Services
CFDA #93.262, 34-5420-2006-206, 12/01/2016 – 8/31/2017
CFDA #93.310, 7UG3OD023279, 01/26/2018 – 08/31/2018
CFDA #93.865, 7R01HD080544-05, 12/11/2017 – 5/31/2018
Research and Development Cluster
Reporting
Significant Deficiency in Internal Control over Compliance**

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: The Organization did not review the cash transactions reports submitted to the PSC or the quarterly progress reports and quarterly financial reports submitted to the PTE prior to submission. One quarterly cash transaction report was not submitted to the PSC, however, there was no activity during the initial quarter of the grant.

Status: Resolved. The Organization has centralized grant reporting functions to which all grant reports are submitted to the centralized grant department for review and approval prior to being submitted to the funding agency. The Organization also has updated user privileges of the centralized grant staff so that multiple users will receive notifications related to the Organization’s multiple Payment Management System (PMS) accounts at the Program Support Center (PSC).

**Finding 2018-002 Department of Health and Human Services
CFDA #93.865, 7R01HD080544-05, 12/11/2017 – 05/31/2018017
CFDA #93.310, 7UG3OD023279, 01/26/2018 – 08/31/2018018
Research and Development Cluster
Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance**

Initial Fiscal Year Finding Occurred: 2018

Finding Summary: As a result of our disbursement testing, we noted the following:
1) There was one instance of lack of an itemized receipt included in a meal expense reimbursement.

- 2) There were four instances of lack of approval for grant related printing expenditures.
- 3) There was a review and approval process in place by program personnel for expenditures made by purchase card; however, it was difficult to determine that the underlying purchase requisitions had been reviewed as the approval was documented on the monthly statement. Thirteen expenditures were selected in the sample testing.

Status:

Resolved. The Organization reviewed and strengthened the controls surrounding the review and approval of allowable costs.

- 1) The Organization has updated its' expense reimbursement tool to an automated system which requires personnel to identify if the reimbursement is grant related. All grant related expense reimbursements are automatically routed to an additional detailed review by the centralized grant personnel after the normal management approval.
- 2) The Organization includes a transfer summary which will include internal printing expenditures when applicable in the month end grant financial packet that is reviewed by management.
- 3) Purchases made by purchase cards have been incorporated into the automated expense reimbursement tool that the Organization has updated to which requires personnel to identify if the reimbursement is grant related. All grant related expense reimbursements will be automatically routed to an additional detailed review by the centralized grant personnel after the normal management approval.

**Finding 2019-001 Preparation of Consolidated Financial Statements and Eliminating Journal Entries
Significant Deficiency**

Finding Summary: The Organization has not implemented an internal control system designed to provide for the preparation of the annual consolidated financial statements and related footnotes. As auditors, we were requested to draft the consolidated financial statements and the accompanying notes to the consolidated financial statements. In addition, adjustments were recorded to intercompany eliminations in the consolidation process.

Responsible Individuals: Jim Breckenridge, Jamie Schaefer, Teri Roark

Corrective Action Plan: The Organization has centralized finance and accounting functions and is working toward one of the centralization goals of gaining the ability to internally prepare consolidated financial statements. Over the past fiscal year there has been material progress made with internal preparation of eliminations and preparation of consolidated financials. This is shown by no audit adjustments with the FY19 audit and no change in net operating margin when comparing internal eliminations/consolidation to the auditors statements. Cash Flow is compiled by the auditors, however the cash flow for Avera McKennan (which is 60% of the total) is completed internally for the auditors to utilize. All notes in the audit that are in relation to investments, cash and debt are coordinated thru the centralized Treasury department.

Anticipated Completion Date: June 30, 2020

Federal Award Finding

**Finding 2019-002 Department of Health and Human Services
CFDA # 93.307, WFA-191862-02, 04/01/2018 – 03/31/2019
Research and Development Cluster**

**Activities Allowed and Allowable Costs
Significant Deficiency in Internal Control over Compliance**

Finding Summary: As a result of our disbursements testing, we identified one instance where personnel costs for a contracted employee were overcharged to the program by an insignificant amount due to a calculation error.

Responsible Individuals: Jim Breckenridge, Rachael Sherard, John Neth

Corrective Action Plan: The Organization will review and strengthen the controls surrounding the review and approval of allowable costs.

Anticipated Completion Date: December 31, 2019

Finding 2019-003

Department of Health and Human Services

CFDA # 93.211, G01RH32150, 09/01/2018 - 08/31/2019

CFDA #93.211, G25RH32402, 09/30/2018 - 09/29/2019

CFDA #93.211, H1WRH31446, 09/30/2017 - 08/31/2018, 09/01/2018 - 08/31/2019

CFDA #93.211, H2ARH30287, 09/01/2018 - 08/31/2019

Telehealth Programs

Activities Allowed and Allowable Costs

Significant Deficiency in Internal Control over Compliance

Finding Summary:

As a result of our disbursements testing, we identified the following:

- 1) There were three instances where a timecard was not approved by the individual's supervisor and payroll costs were charged to the program.
- 2) There were three instances where a time card was not approved by an individual other than the employee.
- 3) There were two instances where expenditures charged to the program did not agree with amounts supported by the employee expense reimbursement documentation.
- 4) There was one instance where use tax related to a different cost center was charged to the program.
- 5) There was one instance where documentation retained to support an expense reimbursement was not readable due to a scanning error and original documentation was not retained to support a portion of the expense reimbursement. In addition, the full expense reimbursement was charged to the program twice.

Responsible Individuals:

Jim Breckenridge, Rachael Sherard, John Neth

Corrective Action Plan:

The Organization will review and strengthen the controls surrounding the review and approval of allowable costs.

Anticipated Completion Date: December 31, 2019

Finding 2019-004

Department of Health and Human Services

CFDA #93.211, G01RH27868, 09/01/2017 - 08/31/2019

CFDA # 93.211, G01RH32150, 09/01/2018 - 08/31/2019

CFDA #93.211, G25RH32402, 09/30/2018 - 09/29/2019

CFDA #93.211, H1WRH31446, 09/30/2017 - 08/31/2018, 09/01/2018 - 08/31/2019

CFDA #93.211, H2ARH30287, 09/01/2018 - 08/31/2019, 09/01/2018 - 08/31/2019

Telehealth Programs

Reporting

Material Weakness in Internal Control over Compliance

Finding Summary:

Through testing of federal cash transaction reports, we noted reported cash disbursements included only expenditures that had been reimbursed and not the amount of cash expenditures incurred during the reporting period that were not yet reimbursed. Additionally, we identified one instance where the amounts reported for an annual progress report were not supported by the Organization's records. We also identified one instance where the number of encounters reported

in a noncompeting continuation report were not supported by the Organization's records.

Responsible Individuals: Jim Breckenridge, Rachael Sherard, John Neth

Corrective Action Plan: The Organization will review and strengthen the controls surrounding the federal requirements relating to reporting and include cash expenditures incurred during the reporting period that are not yet reimbursed on the quarterly federal cash transaction reports.

Overall Avera Health manages its Federal grants on a reimbursement basis and drawdown the funds from the Payment Management System (PMS). PMS requires the Federal Cash Transaction Report (FCTR) be prepared within 30 days of the end of each calendar quarter. Typically, Avera Health receives a notification within the first week following the calendar quarter that the FCTR is available for completion. PMS prepopulates the receipt amount on line 10.a. based on their records of actual drawdowns completed during that quarter. Avera Health then completes the disbursement amount on line 10.b.

Historically, Avera Health has interpreted the instructions for the disbursement line that the disbursement amount is the Federal funds we have received reimbursement; therefore, our "cash on hand" has always been zero. We have been using the same methodology in completing these FCTRs for almost the past 10 years; in reviewing the submitted FCTR history on the PMS website, the first FCTR on record was completed for quarter ended 12/31/2009. Recently, PMS published a user guide on their website which includes step by step instructions for the FCTR with screenshots. Within these instructions, there is a designated note stating all expenditures must be reported regardless if they have been reimbursed through the grant or not. The Organization is estimating that this PMS User Guide became available sometime within the 2019 fiscal year as this was the first time either our independent auditors or Avera Health management has seen the note.

Each of the submitted FCTRs is reviewed and signed off by a PMS Liaison Accountant. Avera Health contacted the PMS Liaison Accountant listed on our FCTRs filed with PMS via telephone on 9/23/2019. The PMS Liaison Accountant assigned to Avera Health, stated that technically the disbursement amount should include all disbursements, but he has heard that various grantees use the FCTR as a "spending report." Avera Health has been completing these FCTRs as a spending report; however, effective immediately, Avera Health has updated its methodology regarding the completion of line 10.b of the FCTRs to align with clarification received from PMS.

The 9/30/2019 calendar month end FCTR and forward will be completed based on our true grant disbursement amounts no matter if the expenditure has been reimbursed through PMS or not.

Anticipated Completion Date: October 30, 2019

Finding 2019-005 **Department of Health and Human Services**
CFDA #93.211, G01RH27868, 09/01/2017 - 08/31/2019
CFDA #93.211, H2ARH30287, 09/01/2017 - 08/31/2018, 09/01/2018 - 08/31/2019
Telehealth Programs

Subrecipient Monitoring
Significant Deficiency in Internal Control over Compliance

Finding Summary: The Organization did not retain documentation to support the ongoing review of the subrecipient risk assessment being performed. Additionally, we noted one instance where the Organization did not retain documentation to support the initial risk assessment being performed on a subrecipient.

Responsible Individuals: Jim Breckenridge, Rachael Sherard, John Neth

Corrective Action Plan: The Organization will review and strengthen the controls surrounding subrecipient monitoring and documentation retention.

Anticipated Completion Date: December 31, 2019

Finding 2019-006 **Department of Health and Human Services**
CFDA # 93.211, G01RH32150, 09/01/2018 - 08/31/2019
CFDA #93.211, G25RH32402, 09/30/2018 - 09/29/2019
CFDA #93.211, H1WRH31446, 09/30/2017 - 08/31/2018, 09/01/2018 - 08/31/2019
Telehealth Programs

Special Tests and Provisions
Significant Deficiency in Internal Control over Compliance

Finding Summary: One individual with a pay rate in excess of the Federal Executive Pay Scale Level II rate that was not capped in accordance with the requirements.

Responsible Individuals: Jim Breckenridge, Rachael Sherard, John Neth

Corrective Action Plan: The Organization will review and strengthen the controls surrounding compliance with the special tests and provisions noted above.

Anticipated Completion Date: December 31, 2019