



Federal Awards Reports in Accordance  
with the Uniform Guidance  
June 30, 2020

## Children's Home Society of South Dakota

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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***

The Board of Directors and Management  
Children's Home Society of South Dakota  
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 Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society), which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, functional expenses, 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 28, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Society's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2020-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Society'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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Society's Response to Finding**

The Society's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Society'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.

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

Sioux Falls, South Dakota  
October 28, 2020



**Independent Auditor's Report on Compliance for Its 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  
Children's Home Society of South Dakota  
Sioux Falls, South Dakota

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

We have audited the compliance of the Children's Home Society of South Dakota and Children's Home Foundation (collectively, the Society) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Society's major federal program for the year ended June 30, 2020. The Society'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 Society's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Society'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 Society's compliance.

**Opinion on Its Major Federal Program**

In our opinion, the Society 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 June 30, 2020.

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

Management of the Society is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Society'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 Society's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2020-002 that we consider to be a material weakness.

The Society'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 Society'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 Consolidated Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of Children's Home Society of South Dakota and Children's Home Foundation as of and for the year ended June 30, 2020, and have issued our report thereon dated October 28, 2020, 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.

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

Sioux Falls, South Dakota  
October 28, 2020

Children's Home Society of South Dakota  
Consolidated Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Passed through State of South Dakota Department of Education and Cultural Affairs			
Child Nutrition Cluster			
School Breakfast Program	10.553	493200	\$ 74,753
National School Lunch Program	10.555	493200	136,268
Total Child Nutrition Cluster			<u>211,021</u>
Child and Adult Care Food Program (CACFP)	10.558	493200	<u>48,184</u>
Total for Department of Agriculture			<u>259,205</u>
<u>Department of Justice</u>			
Passed through State of South Dakota Department of Public Safety			
Crime Victim Assistance	16.575	2020-1441-00013, 2021-1441-0013, 2020-1441-00017, 2021-1441-00042	699,874
Passed through South Dakota Network Against Family Violence and Sexual Assault			
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	2016-WR-AX-0016	1,623
Transitional Housing	16.736	2016-WH-AX-0001	6,669
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX-0003	<u>18,191</u>
Total for Department of Justice			<u>726,357</u>
<u>Department of Health &amp; Human Services</u>			
Passed through State of South Dakota Department of Social Service			
TANF Cluster			
Temporary Assistance for Needy Families	93.558	21-0823-301	33,019
Passed through State of South Dakota Department of Public Safety			
Family Violence Prevention & Services Act - FY 20 Coronavirus Aid Relief and Economic Security Act (CARES Act) Supplemental Funding	93.671	SDVS-CARES-Act-006	<u>1,488</u>
Total for Department of Health & Human Services			<u>34,507</u>
Total Federal Financial Assistance			<u>\$ 1,020,069</u>



**Note 1 - Basis of Presentation**

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Children's Home Society of South Dakota and Children's Home Foundation (the Society) under programs of the federal government for the year ended June 30, 2020. 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 Society, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of the Society.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in 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 3 - Indirect Cost Rate**

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

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**Section I – Summary of Auditor’s Results**

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**CONSOLIDATED FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies 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>
Crime Victim Assistance	16.575
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 – Consolidated Financial Statement Findings**

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**2020-001      Preparation of Financial Statements  
Significant Deficiency**

*Criteria:* Proper controls over financial reporting include the ability to prepare consolidated financial statements and accompanying notes to the financial statements.

*Condition:* The auditor was requested to prepare the consolidated financial statements and footnote disclosures.

*Cause:* The Society relies on the auditor to provide the necessary understanding and disclosure guidance in the preparation of the consolidated financial statements.

*Effect:* The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Society. The outside party does not have the same comprehensive understanding of the Society as its internal financial staff. It is the responsibility of the Society's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Recommendation:* We recommend management continue reviewing the consolidated financial report prepared by the auditor. Management and the board of directors should continually be aware of the financial accounting and reporting requirements of the Society as well as changes in these requirements.

*Views of Responsible Officials:* Management has chosen to hire Eide Bailly, a public accounting firm, to prepare the consolidated financial statements and accompanying notes to the consolidated financial statements. Management and the board of directors will review for propriety the draft consolidated financial statements and accompanying notes to the consolidated financial statements.

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Section III – Federal Award Findings and Questioned Costs

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**2020-002**      **Department of Justice and State of South Dakota Department of Public Safety**  
**CFDA #16.575, 2020-1441-00013, 2020-1441-00017, 2021-1441-0013, 2021-1441-00042**  
**Crime Victim Assistance**

**Allowable Costs, Allowable Activities, and Matching**  
**Material Weakness in Internal Control over Compliance**

*Criteria:* The Society is required to have procedures in place to assure that federal awards are expended only for allowable costs in accordance with Subpart E – Cost Principles of the Uniform Guidance. Allowable costs are supported by appropriate documentation and correctly charged as to account, amount, and period. 2 CFR 200.430(i) establishes requirements for documentation of personnel expenses. 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award

*Condition:* The following items were identified in our sample of payroll expenditures selected for testing for the grant:

- 1) One instance in which the wrong hours were used in the allocation of allowable hours and paid time off (CAC)
- 2) Fifteen instances where hours used to allocate payroll to the grant differed from actual hours worked and paid (CI)
- 3) Twenty instances where employee grant allocation was not being calculated correctly, resulting in improper weighting of grant hours (CI and CAC)

*Cause:* Tracking of grant-related payroll is a manual process which increases the likelihood of error.

*Effect:* Payroll and related costs were not properly reported by an insignificant amount.

*Questioned Costs:* Question costs as a result of the conditions outlined above were \$557 related to allowable costs/allowable activities and \$139 related to matching.

*Context/Sampling:* A nonstatistical sample of 62 payroll transactions out of 693 total transactions for allowable costs/activities and matching were selected for testing. All 62 were tested for both allowable costs/activities and matching. Allowable cost/activities testing accounted for approximately \$37,642 of \$699,910 of federal program expenditures and matching testing accounted for approximately \$9,408 of \$175,190 of match expenditures.

*Repeat Finding from Prior Year(s):* Yes, Finding 2019-002

*Recommendation:* We recommend management review the process over tracking payroll related to federal programs and consider implementing same methodology for both grants (CAC and CI). Management may also contemplate incorporating a secondary review of any manual spreadsheets or consider if the payroll can be allocated directly within the payroll system. In addition, we suggest management should ensure grant supervisors are trained on the personnel expense portion of Uniform Guidance to ensure documentation requirements are met.

*Views of Responsible Officials:* Management is in agreement.



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## Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan June 30, 2020

Prepared by Management of

# Children's Home Society of South Dakota

**Children's Home Society of South Dakota**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2020**

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**Consolidated Financial Statement Findings**

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**Finding 2019-001**

**Preparation of Financial Statements**

*Initial Fiscal Year Finding:*

2018

*Finding Summary:*

We requested Eide Bailly LLP prepare our draft financials statements and accompanying notes to the financial statements.

*Status:*

Ongoing. Due to cost effectiveness, we requested our auditors, Eide Bailly LLP, prepare our financial statements and the accompanying notes to the financial statements as part of the annual audit. We have designated members of management to review the drafted financial statements and accompanying notes to the consolidated financial statements.

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**Federal Award Findings and Questioned Costs**

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**Finding 2019-002**

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

**Federal Agency Name:**

**Department of Justice and State of South Dakota Department of Social Services / State of South Dakota Department of Public Safety**

**Program Name:**

**Crime Victim Assistance**

**CFDA #**

**16.575**

*Initial Fiscal Year Finding:*

2019

*Finding Summary:*

The following items were found in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI):

- 1) In the allocation of allowable hours and paid time off, one instance in which the wrong hours were used
- 2) One instance in which the wrong pay rate was used
- 3) Five instances in which the wrong pay rate was used
- 4) Budgeted amounts were used to allocate health insurance expense throughout the year with no true-up analysis performed at year end.

*Status:*

Ongoing. Due to the manual nature and cost considerations, we continue to review procedures to improve controls over this grant to ensure all grant expenditures are allowable and properly calculated.



**Children's Home Society of South Dakota**  
**Corrective Action Plan**  
**Year Ended June 30, 2020**

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**Consolidated Financial Statement Findings**

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**Finding 2020-001**

**Preparation of Financial Statements**

*Finding Summary:*

We requested Eide Bailly LLP prepare our draft financials statements and accompanying notes to the financial statements.

*Responsible Individuals:*

Joe Herdina, CFO & Jeffrey Lush, Accounting Director

*Corrective Action Plan:*

Ongoing. Due to cost effectiveness, we requested our auditors, Eide Bailly LLP, prepare our financial statements and the accompanying notes to the financial statements as part of the annual audit. We have designated members of management to review the drafted financial statements and accompanying notes to the consolidated financial statements.

*Anticipated Completion Date:* Ongoing



**Children's Home Society of South Dakota**  
**Corrective Action Plan**  
**Year Ended June 30, 2020**

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**Federal Award Findings and Questioned Costs**

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<b>Finding 2019-002</b>	<b>Allowable Costs, Allowable Activities and Matching Material Weakness in Internal Control over Compliance</b>
<b>Federal Agency Name:</b>	<b>Department of Justice and State of South Dakota Department of Public Safety</b>
<b>Program Name:</b>	<b>Crime Victim Assistance</b>
<b>CFDA #</b>	<b>16.575</b>
<i>Finding Summary:</i>	<p>The following items were found in our sample of payroll expenditures selected for testing for the grant:</p> <ol style="list-style-type: none"><li>1) One instance in which the wrong hours were used in the allocation of allowable hours and paid time off (CAC)</li><li>2) Fifteen instances where hours used to allocate payroll to the grant differed from actual hours worked and paid (CI)</li><li>3) Twenty instances where employee grant allocation was not being calculated correctly, resulting in improper weighting of grant hours (CI and CAC)</li></ol>
<i>Responsible Individuals:</i>	<p>Joe Herdina, CFO Jeffrey Lush, Accounting Director Amy Carter, Program Director (CI) Janice Lee, Finance Administrator (CI) Tifanie Petro, Program Director (CAC)</p>
<i>Corrective Action Plan:</i>	<p>Management will continue to review the process over tracking payroll related to federal programs. We will work to implement a consistent methodology across both grants and make changes to hourly rate calculation to use pay statement data. This will include the implementation of secondary review of spreadsheets used to calculate payroll amounts for the grant and completion of true-up analysis, if applicable.</p>
<i>Anticipated Completion Date:</i>	June 30, 2021