



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2018

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 of
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, 2018, 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 23, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-A, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The 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 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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Sioux Falls, South Dakota
October 23, 2018



**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 Each 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, 2018. 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, 2018.

Report on Internal Control over Compliance

Management of the Society 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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 Finding 2018-001 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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a significant deficiency.

The Society'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 Society'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 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, 2018, and have issued our report thereon dated October 23, 2018, 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.

Eide Bailly LLP

Sioux Falls, South Dakota
October 23, 2018

Children's Home Society of South Dakota
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<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	\$ 78,023
National School Lunch Program	10.555	493200	140,857
Total Child Nutrition Cluster			<u>218,880</u>
Child and Adult Care Food Program (CACFP)	10.558	493200	44,658
Total for Department of Agriculture			<u>263,538</u>
<u>Department of Housing and Urban Development</u>			
Passed through State of South Dakota Housing Development Authority			
Emergency Solutions Grant Program	14.231	E-16DC-46-0001-15	<u>5,965</u>
<u>Department of Justice</u>			
Passed through State of South Dakota Department of Social Services			
Crime Victim Assistance	16.575	18-0815-642, 18-0815- 643, 19-0815-642, 19- 0815-643	328,465
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	6,882
Transitional Housing	16.736	2016-WH-AX-0001	3,788
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2016-WE-AX-0003	18,941
Passed through National Children's Alliance			
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	16.758	2015-CI-FX-K0001	<u>20,494</u>
Total for Department of Justice			<u>378,570</u>
<u>Department of Health and Human Services</u>			
Passed through State of South Dakota Department of Social Services			
Family Violence Prevention and Services Act/Domestic Violence Shelter and Supportive Services	93.671	18-0815-643, 19-0815-643	<u>106,634</u>
Total Federal Financial Assistance			<u>\$ 754,707</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, 2018. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the 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. 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.

Section I - Summary of Auditor's Results

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	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 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

Section II – Consolidated Financial Statement Findings

**Finding 2018-A Preparation of Financial Statements
 Significant Deficiency**

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries 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: As a result of audit procedures, an adjustment was identified that may not have been identified as a result of the Society's existing internal controls.

Cause: The allowance for uncollectible contributions reduced permanently restricted revenue rather than recording loss on uncollectible contributions receivable.

Effect: Permanently restricted contributions and loss on uncollectible contributions receivable were understated by \$177,682.

Recommendation: We recommend management review the allowance for uncollectible contributions at year end to ensure the amounts are properly reflected in the consolidated financial statements.

Views of Responsible Officials: Management is in agreement.

Section III - Federal Award Findings and Questioned Costs

2018-001 **Department of Justice and State of South Dakota Department of Social Services**
CFDA #16.575, 18-0815-642, 18-0815-643, 19-0815-642, 19-0815-643
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 found in our sample of payroll expenditures selected for testing for the Children’s Inn grant (CI) and the Child Advocacy Center grant (CAC):

- 1) In the allocation of paid time off, two instances in which the wrong hours were used, one instance in which the wrong base hours were used and one instance in which the wrong pay rate was used (CAC)
- 2) In allocation of health insurance, four instances in which the wrong base amount was used (CI)
- 3) Five instances in which the wrong pay rate was charged to the program (both)
- 4) Timesheets did not agree to amount charged to the grant (CI):
 - a) One instance in which timesheet did not account for unpaid leave
 - b) Two instances in which nonfederal hours were not identified on the timesheet
- 5) Timesheets did not track 100% of salaried employee time in four instances. (CAC)

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

Effect: Payroll costs were not properly reported by an insignificant amount

Questioned Costs: Question costs as a result of the conditions outlined above were as follows:

- 1) \$97 related to allowable costs.
- 2) \$82 related to allowable costs.
- 3) \$0 related to allowable costs as amounts were under allocated and \$70 related to matching.
- 4) \$25 related to matching.
- 5) Not determinable

Context/Sampling: A nonstatistical sample of 64 payroll transactions out of 322 total transactions were selected for testing. Of the 64 tested, 26 were tested for both allowable costs and matching, 24 were tested for allowable costs only and 14 were tested for matching only. Allowable cost testing accounted for approximately \$43,000 of \$280,000 of federal program expenditures and matching testing accounted for approximately \$16,000 of \$80,000 of federal program expenditures.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend management review the process over tracking payroll related to federal programs. Management may consider 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 they are meeting all requirements.

Views of Responsible Officials: Management is in agreement.

**2018-002 Department of Justice and State of South Dakota Department of Social Services
CFDA #16.575, 18-0815-642, 18-0815-643, 19-0815-642, 19-0815-643
Crime Victim Assistance**

**Cash Management and Reporting
Significant Deficiency in Internal Control over Compliance**

Criteria: 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: Approval of the June draw for the Child Advocacy Center (CAC) could not be located. In addition, all portions of the quarterly performance report are not reviewed and formally approved prior to being submitted to pass-through agency.

Cause: Supporting documentation of approval of the June draw was not retained. Several individuals are involved in putting together the various parts of the quarterly progress reporting and there is no overall documented review of amounts reported.

Effect: Inadequate documentation of controls over this area of compliance could result in a reasonable possibility that the Society would not detect errors in the normal course of performing duties and correct them in a timely manner.

Questioned Costs: None reported

Context/Sampling: Cash draws were reviewed for four months in the Society's fiscal year. Two quarters were reviewed for the progress reporting.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that procedures regarding quarterly progress reporting be reviewed to ensure they are properly designed to include an appropriate level of review independent of the individual preparing the information. In addition, we suggest that supporting documentation of such independent review related to cash draws and reporting be retained to ensure compliance with grant requirements.

Views of Responsible Officials: Management is in agreement.



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Management's Response to Auditor's Findings: Corrective Action Plan June 30, 2018

Prepared by Management of

Children's Home Society of South Dakota

Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018

Consolidated Financial Statement Findings

Finding 2018-A

Preparation of Financial Statements

Finding Summary:

As a result of audit procedures, an adjustment was identified that may not have been identified as a result of the Society's existing internal controls.

Responsible Individuals:

Tami Gronseth, CFO & Laura Peterson, Accounting Manager

Corrective Action Plan:

Management will review all entries at year end to ensure they are properly recorded in our consolidated financial statements.

Anticipated Completion Date: Ongoing

**Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018**

Federal Award Findings and Questioned Costs

Finding 2018-001 **Allowable Costs, Allowable Activities and Matching
Material Weakness in Internal Control over Compliance**

Federal Agency Name: **Department of Justice and State of South Dakota Department of
Social Services**

Program Name: **Crime Victim Assistance**

CFDA # **16.575**

Finding Summary: The following items were found in our sample of payroll expenditures selected for testing for the Children's Inn grant (CI) and the Child Advocacy Center grant (CAC):

- 1) In the allocation of paid time off, two instances in which the wrong hours were used, one instance in which the wrong base hours were used and one instance in which the wrong pay rate was used (CAC)
- 2) In allocation of health insurance, four instances in which the wrong base amount was used (CI)
- 3) Five instances in which the wrong pay rate was charged to the program (both)
- 4) Timesheets did not agree to amount charged to the grant (CI):
 - a) One instance in which timesheet did not account for unpaid leave
 - b) Two instances in which nonfederal hours were not identified on the timesheet
- 5) Timesheets did not track 100% of salaried employee time in four instances. (CAC)

Responsible Individuals: Tami Gronseth, CFO
Laura Peterson, Accounting Manager
Janice Lee, Finance Administrator (CI)
Jami Scoggins, Payroll Accountant (CAC)

Corrective Action Plan: Management will review internal controls over the manual tracking of payroll related to federal programs and incorporate additional review procedures to improve the current independent review process.

Anticipated Completion Date: June 30, 2019

**Children's Home Society of South Dakota
Corrective Action Plan
Year Ended June 30, 2018**

Federal Award Findings and Questioned Costs - Continued

Finding 2018-002	Cash Management and Reporting Significant Deficiency in Internal Control over Compliance
Federal Agency Name:	Department of Justice and State of South Dakota Department of Social Services
Program Name:	Crime Victim Assistance
CFDA #	16.575
<i>Finding Summary:</i>	Approval of the June draw for the Child Advocacy Center (CAC) could not be located. In addition, all portions of the quarterly performance report are not reviewed and formally approved prior to being submitted to pass-through agency.
<i>Responsible Individuals:</i>	Tami Gronseth, CFO Laura Peterson, Accounting Manager Amy Carter, Children's Inn Program Director Advocacy and Prevention Director, TBD
<i>Corrective Action Plan:</i>	Management will review the procedures for submission of the quarterly performance reports to the pass-through agency and implement an independent review process. In addition, documentation of the independent review process will be retained along with the related cash draws to ensure compliance with grant requirements.
<i>Anticipated Completion Date:</i>	June 30, 2019