

E. A. HAWSE HEALTH CENTER, INC.

Financial and Compliance Report May 31, 2019

DHHR - Finance

FEB 14 2020

Date Received





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February 11, 2020

State of West Virginia
Department of Health and Human Resources
Office of Internal Control Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

Re: Grant Number G190613

Enclosed you will find a copy of E. A. Hawse Health Center's audit for fiscal year 2018/2019.

If you have any questions, please direct them to William Koontz, CFO at extension 234.

Sincerely,


Brenda L. Thompson
Executive Administrative Assistant

DHHR - Finance

FEB 14 2020

Date Received

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
E. A. Hawse Health Center, Inc.
Baker, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of E. A. Hawse Health Center, Inc. (Organization) which comprise the statements of financial position as of May 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of E. A. Hawse Health Center, Inc. as of May 31, 2019 and 2018, and the results of operations, changes in its net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal awards and expenditures of state awards, as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)* and the State of West Virginia, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019, on our consideration of E. A. Hawse Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering E. A. Hawse Health Center, Inc.'s internal control over financial reporting and compliance.

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
December 17, 2019

DHHR - Finance

FEB 14 2020

Date Received

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
May 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,114,322	\$ 1,763,082
Patient receivables, net	1,340,252	1,555,703
Due from third party payers	119,607	80,000
Grants receivable	96,703	-
Inventories	655,007	562,200
Prepaid assets and deposits	148,242	114,970
Total current assets	3,474,133	4,075,955
PROPERTY AND EQUIPMENT		
Land	38,638	38,638
Buildings and improvements	2,398,020	2,404,094
Furniture and equipment	2,292,987	2,228,240
	4,729,645	4,670,972
Less accumulated depreciation	3,228,130	3,009,748
Net property and equipment	1,501,515	1,661,224
Total assets	\$ 4,975,648	\$ 5,737,179
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Note payable, current portion	\$ 28,353	\$ 26,693
Accounts payable	244,617	59,625
Accrued expenses	485,686	574,062
Total current liabilities	758,656	660,380
NOTE PAYABLE, less current portion	318,278	344,385
DEFERRED REVENUE	24,800	40,746
Total liabilities	1,101,734	1,045,511
NET ASSETS		
Without donor restrictions	3,868,505	4,686,259
With donor restrictions	5,409	5,409
Total net assets	3,873,914	4,691,668
Total liabilities and net assets	\$ 4,975,648	\$ 5,737,179

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended May 31, 2019 and 2018

	2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Net patient service revenue	\$ 9,344,629	\$ 9,501,660
Less provision for bad debts	21,445	143,679
Net patient service revenue less provision for bad debts	9,323,184	9,357,981
Federal grants	1,506,519	1,455,963
State grants	120,079	139,111
Donated pharmaceuticals	272,505	76,163
Other	27,268	18,053
Total revenue and support	11,249,555	11,047,271
Operating expense:		
Salaries and wages	5,670,958	5,306,962
Medical and other supplies	3,071,397	3,054,855
Payroll taxes and employee benefits	1,220,533	1,146,973
Contracted services	402,290	362,614
Rent	292,856	270,205
Donated drugs and supplies	272,505	76,163
Repairs and maintenance	249,128	91,510
Depreciation	224,456	245,462
Utilities and telephone	187,993	204,112
Insurance	42,759	38,783
Travel and education	39,431	44,687
Professional services	23,466	17,500
Interest	20,587	26,150
Other	348,950	121,055
Total operating expense	12,067,309	11,007,031
Change in net assets without donor restrictions	(817,754)	40,240
Net Assets:		
Beginning	4,691,668	4,651,428
Ending	\$ 3,873,914	\$ 4,691,668

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended May 31, 2019

	Program Activities	Administrative and General	Total Operating Expense
OPERATING EXPENSE			
Salaries and wages	\$ 4,039,368	\$ 1,631,590	\$ 5,670,958
Medical and other supplies	3,071,397	-	3,071,397
Payroll taxes and employee benefits	869,374	351,159	1,220,533
Contracted services	346,885	55,405	402,290
Rent	267,754	25,102	292,856
Donated drugs and supplies	272,505	-	272,505
Repairs and maintenance	227,774	21,354	249,128
Depreciation	205,217	19,239	224,456
Utilities and telephone	171,879	16,114	187,993
Insurance	39,094	3,665	42,759
Travel and education	30,182	9,249	39,431
Professional services	-	23,466	23,466
Interest	18,822	1,765	20,587
Other	-	348,950	348,950
Total operating expense	\$ 9,560,251	\$ 2,507,058	\$ 12,067,309

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended May 31, 2018

	Program Activities	Administrative and General	Total Operating Expense
OPERATING EXPENSE			
Salaries and wages	\$ 3,712,743	\$ 1,594,219	\$ 5,306,962
Medical and other supplies	3,054,855	-	3,054,855
Payroll taxes and employee benefits	802,421	344,552	1,146,973
Contracted services	328,698	33,916	362,614
Rent	247,045	23,160	270,205
Donated drugs and supplies	76,163	-	76,163
Repairs and maintenance	83,666	7,844	91,510
Depreciation	224,422	21,040	245,462
Utilities and telephone	186,617	17,495	204,112
Insurance	35,459	3,324	38,783
Travel and education	39,951	4,736	44,687
Professional services	-	17,500	17,500
Interest	23,909	2,241	26,150
Other	-	121,055	121,055
Total operating expense	\$ 8,815,949	\$ 2,191,082	\$ 11,007,031

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.**STATEMENTS OF CASH FLOWS**
Years Ended May 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (817,754)	\$ 40,240
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	224,456	245,462
Provision for bad debts	21,445	143,679
(Increase) decrease in assets:		
Patient receivables	194,006	(572,196)
Due from third party payers	(39,607)	(30,000)
Grants receivable	(96,703)	36,764
Inventories	(92,807)	(105,342)
Prepaid expenses and deposits	(33,272)	(80,594)
Increase (decrease) in liabilities:		
Accounts payable	184,992	(26,122)
Accrued expenses	(88,376)	92,161
Deferred revenue	(15,946)	15,146
	<hr/>	<hr/>
Net cash (used in) operating activities	(559,566)	(240,802)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(64,747)	(173,787)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	(24,447)	(27,073)
	<hr/>	<hr/>
Net (decrease) in cash	(648,760)	(441,662)
Cash:		
Beginning	1,763,082	2,204,744
	<hr/>	<hr/>
Ending	\$ 1,114,322	\$ 1,763,082
	<hr/>	<hr/>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 20,587	\$ 26,150
	<hr/>	<hr/>

See Notes to Financial Statements

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

E. A. Hawse Health Center, Inc. (Organization) is a nonprofit organization established as a Federally Qualified Health Center (FQHC) for the purpose of providing primary care services to the residents of Hardy County, West Virginia and the surrounding areas. The Organization's principal operations are in Baker, West Virginia.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America, whereby revenue are recognized when earned, rather than when received, and expenses are recognized when incurred, rather than when paid.

Management's estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and deposit risk: In the normal course of business, the Organization may have deposits with local financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits. The Organization has not experienced any losses in such accounts.

Patient receivables: Patient receivables are unsecured and represent the estimated net realizable amounts expected from patients, third party payers, and others for services rendered. The Organization utilizes the reserve method of accounting for bad debts and provides for uncollectible amounts within the allowance for doubtful accounts. Amounts that are deemed uncollectible are charged against the allowance. Management's estimates of allowances for doubtful accounts are based on historical experience and analysis of individual patient and third-party receivables. Specific balances are written off at the time that they are determined to be uncollectible. Accounts receivable are reported net of allowance for doubtful accounts and estimated adjustments of \$1,008,270 and \$744,481 as of May 31, 2019 and 2018, respectively.

The Organization grants credit without collateral to the residents of its service area, many of whom are insured under third party payer agreements. As of June 30, accounts receivable from patients and third party payers are as follows:

	2019	2018
Medicare	25%	22%
Medicaid	35%	36%
Commercial	31%	29%
Private pay	9%	13%
	<u>100%</u>	<u>100%</u>

Grants receivable: Grants receivable represents amounts billed to federal and state agencies, but not paid as of the fiscal year end. Certain grants which allow the Organization to draw down at any time would be included as a receivable and net assets with donor restrictions if the award has been made but the amount has not been drawn down by the Organization.

Inventories: Inventories consist of medical and other supplies to be consumed in the treatment of patients and the general operation of the Organization. Inventories are stated at lower of cost or net realizable value, based on the first-in, first-out method of valuation.

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Property and equipment: Property and equipment are stated at cost for purchased items and fair value for contributed items. Assets whose expected useful lives are in excess of one year and cost (or fair value) is above a threshold established by the Board of Directors are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, using the American Hospital Association (AHA) estimated useful lives (3-39 years). Amortization expense on assets acquired under capital lease would be included with depreciation expense. Normal repairs and maintenance are expensed as incurred.

Upon sale or retirement of depreciable assets, costs and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss on the sale is included in operations.

Compensated absences: A liability for compensated absences earned, but not paid as of May 31, 2019 and 2018, has been recognized and is included in accrued expenses on of the statements of financial position. As of May 31, 2019 and 2018, \$341,416 and \$253,947 remain unpaid, respectively.

Net assets: Net assets, revenue, gains, and losses are classified based on donor-imposed stipulations. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor or grantor restrictions. All revenue not restricted by donors or grantors and donor restricted contributions whose restrictions are satisfied in the same period in which they are received are accounted for as net assets without donor restrictions.

Net assets with donor restrictions result from contributions, grants, or other inflows of assets whose use by the Organization is limited by donor or grantor imposed stipulations. Those restrictions can be removed by the passage of time, by actions of the Organization pursuant to those stipulations, or from other asset enhancements and diminishments subject to the same kinds of stipulations. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Change in net assets without donor restrictions: The statements of activities and changes in net assets report the change in net assets as the performance indicator as there are no transactions that would be considered peripheral or incidental to the operation of the Organization. Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and support. Peripheral or incidental transactions would be reported as other income. Other changes in net assets would include, consistent with industry practice, grant funds received with restrictions, which would be excluded from the change in net assets without donor restrictions.

Income taxes: The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is recognized as tax exempt under 501(a) of the Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an entity that is not a private foundation under 509(a)(1). The Organization had no unrelated business income during the years ended May 31, 2019 and 2018. Accordingly, no provision for income taxes has been provided.

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken by the Organization and recognize a tax liability or asset if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Services (IRS). The Organization has concluded that as of May 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset or disclosure in the financial statements.

Generally, tax returns for years ended May 31, 2016, and thereafter remain subject to examination by federal and state tax authorities.

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Revenue recognition: Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers. Revenue is based on encounters performed and medical services provided. The Organization is approved as a Federally Qualified Health Center (FQHC). As an FQHC, the Organization receives prospective payment, fee schedule reimbursement, and cost-based reimbursement from the Medicare program, and prospective payment and fee schedule reimbursement from the Medicaid program.

Revenue from Medicare and Medicaid programs represents a significant portion of net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will differ from actual results.

Contractual allowances represent the difference between established billing rates and amounts estimated to be paid under various health benefit agreement, including Medicare, Medical Assistance of West Virginia, and other insurance plans. Provisions for contractual allowances are recorded in the period in which services are provided.

A summary of gross and net patient service revenue for the year ended May 31 is as follows:

	2019	2018
Gross patient service revenue	\$ 12,911,401	\$ 13,314,989
Less provision for:		
Contractual and other adjustments	3,566,772	3,813,329
Provision for bad debts	21,445	143,679
Net patient service revenue	<u>\$ 9,323,184</u>	<u>\$ 9,357,981</u>

Charity care: The Organization provides care to patients who meet certain criteria without charge or at amounts less than its established rates under a sliding fee arrangement covered by grant funds. The criteria for charity care consider family income, liquid assets, and family worth, as well as other subjective items. Because the Organization does not pursue collection of these amounts, they are not included in net patient revenue.

The net cost of charity care provided was approximately \$439,000 and \$582,000 for the years ended May 31, 2019 and 2018, respectively. The total cost estimate is based on the estimated cost per encounter of each patient multiplied by the number of charity encounters. The net cost of charity care is determined by the total charity care cost less any patient-related revenue due to sliding-scale or other patient-specific sources, which were estimated to be \$10,600 and \$18,400 for the years ended May 31, 2019 and 2018, respectively. The estimates do not include costs associated with the patient assistance program and prescriptions for which the Organization only receives approximately \$5 dispensing fee from the Medicaid program, which does not cover the average cost to the Organization.

Functional expense allocation: The program activities of the Organization and the administrative and general costs have been summarized on a functional basis on the statements of functional expenses for the years ended May 31, 2019 and 2018. The statements of functional expenses present the natural classification detail of expense by function. Accordingly, certain costs have been allocated between program activities and administrative and general costs.

Economic dependency: The Organization receives a significant portion of its support from federal and state government grants, Medicare and Medicaid programs and patient revenue. A material reduction in the level of support or nonpayment of fees generated would have a significant impact on the Organization's programs and activities and its ability to continue as a going concern. Patient service revenue is primarily limited to services provided to the residents of Hardy County, West Virginia, and the surrounding area. General economic conditions in the area significantly influence the Organization's ability to collect fees for services rendered.

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Advertising: Advertising costs are expensed as incurred. Advertising expense amounted to \$19,805 and \$16,786 for the years ended May 31, 2019 and 2018, respectively.

Reclassifications: Certain minor reclassifications have been made to the 2018 financial statements to conform to the presentation used in 2019.

Subsequent events: The Organization's management has evaluated events that occurred through December 17, 2019, which is the date this report is available to be issued for potential recognition or disclosure.

Subsequent to year end, the United States Department of Justice levied a penalty related to an employee that removed a controlled substance from the pharmacy. See Finding 2019 – 003 on the Schedule of Finding and Questioned Costs.

Recent Accounting Pronouncements

Revenue recognition: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. The Organization will adopt this guidance for the year ending May 31, 2020. The Organization has evaluated the adoption of the guidance and does not currently believe it will have a material impact on its financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. The Organization is currently evaluating the impact, if any, that adoption will have on its May 31, 2022 financial statements.

Not-for-Profit entities: In August 2016, the FASB issued ASU 2016-14, (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The Organization adopted this guidance during the year ended May 31, 2019. The Organization applied the ASU retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources as permitted by ASU 2016-14. Adoption of this guidance did not have a material effect on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. These amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations (NFPs) and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The Organization is currently evaluating the impact, if any, that adoption will have on its May 31, 2020 financial statements.

Note 2. Malpractice Insurance

The Organization's employees are deemed to be employees of the federal government for the purpose of malpractice liability protection under the Federal Tort Claims Act. Pursuant to Section 224 of the Public Health Services Act, the Federal Tort Claims Act covers alleged negligent medical care during the performance of services for FQHCs when performing covered services at covered facilities.

Note 3. Lessor Leasing Arrangement Restricted Land

E. A. Hawse Health Center, Inc. has a lease agreement with Hemlock, LLC. This lease is for land that the Organization owns, but where a nursing home is located. The original lease began on August 9, 1983, and stated that the lessee was to pay \$1 per year for 99 years. In October 2006, the agreement was amended and a lump sum of \$30,000 was agreed upon for the remaining 75 years of the lease. Every year, \$400 will be released from deferred revenue until 2081. The deferred revenue balance related to this lease as of May 31, 2019 and 2018, was \$24,800 and \$25,200, respectively.

The land that the Organization is leasing to Hemlock, LLC was acquired as part of a larger tract, which includes the location of the Organization. A portion of that land is considered a temporarily restricted net asset as the land cannot be sold or donated for the remainder of the lease agreement. It has been estimated that the leased land is 14% of the entire tract. The original carrying value of the leased land is \$5,409.

Note 4. Operating Leases

The Organization has month to month leases for its locations in Mathias, Moorefield, and Wardensville, West Virginia at a cost of \$1,000, \$4,000, and \$600 per month, respectively. The Petersburg, West Virginia location is leased for 10 years, expiring in July of 2025, with an option to renew for 10 additional years, at a cost of \$13,196 per month plus any maintenance, insurance, and property taxes, which vary from year to year.

Note 5. Pension Plan

During the year ended May 31, 2019, the Organization has established a 401(k) deferred compensation plan (Plan) for the benefit of eligible employees to defer a portion of their annual compensation. The Organization's board of directors determines the discretionary matching contribution to the Plan annually. For the years ended May 31, 2019 and 2018, no matching contribution was made.

Note 6. Line of Credit

The Organization has a line of credit with Capon Valley Bank in the amount of \$250,000, with interest payable at 5.50%. The Organization did not have an outstanding balance under this line of credit as of May 31, 2019 or 2018. This line is secured by land and the E. A. Hawse Health Center building.

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Note Payable

The following is a summary of the note payable as of May 31:

	2019	2018
Capon Valley Bank; note payable in monthly installments of \$4,094, including interest at 6.25%, secured by deed of trust, clinic buildings, and land; maturing on September, 2028.	\$ 346,631	\$ 371,078
Less current portion	<u>28,353</u>	26,693
	<u>\$ 318,278</u>	<u>\$ 344,385</u>

Aggregate annual maturities required on the note payable as of May 31, 2019, are as follows:

Years Ending May 31:

2020	\$ 28,353
2021	30,234
2022	32,178
2023	34,249
2024	36,225
Thereafter	<u>185,392</u>
	<u>\$ 346,631</u>

Note 8. Liquidity and Availability

As of May 31, 2019, the Organization has working capital of approximately \$2,715,000. Financial assets available for general expenditure within one year of the statement of financial position consist of the following as of May 31, 2019:

Cash	\$ 1,114,322
Patient receivables, net	1,340,252
Due from third party payers	119,607
Grants receivable	<u>96,703</u>
	<u>\$ 2,670,884</u>

The Organization has a goal to maintain financial assets, which consist of cash on hand, to meet 90 days of normal operating expenses, which are, on average, approximately \$2,900,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9. Commitments and Contingencies

Laws and regulations: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

While no regulatory inquiries have been made other than those disclosed in the schedule of findings and questioned costs, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

E. A. HAWSE HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2019

Federal Grantor / Pass-Through Grantor / Program Title or Cluster	Federal CFDA Number	Award Amount	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Health Resource & Service Administration Health Center Program Cluster:			
Consolidated Health Centers Program	93.224	\$ 436,383	\$ 436,383
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	<u>1,070,136</u>	<u>1,070,136</u>
Total expenditures of federal awards		<u>\$ 1,506,519</u>	<u>\$ 1,506,519</u>

See Notes to Schedule of Expenditures of Federal Awards

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of E. A. Hawse Health Center, Inc. (Organization) under programs of the federal government for the year ended May 31, 2019. The information in this Schedule 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 financial position, changes in net assets or cash flows of the Organization. Additionally, due to the different reporting requirements of the financial statements from those of the above Schedule, some amounts presented may differ from amounts presented in, or used in, the preparation of the financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, where in certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Costs

The Organization does not seek reimbursement of indirect costs under its federal programs. Additionally, the Organization has never negotiated an indirect cost rate with its cognizant agency. Therefore, the Organization has elected to use the 10% de minimis indirect cost rate.

Note 4. Sub-recipients

The Organization does not pass federal awards to sub-recipients.

E. A. HAWSE HEALTH CENTER, INC.

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended May 31, 2019**

<u>State Grantor / Program</u>	<u>Grant Number</u>	<u>Grant Award</u>	<u>Grant Receipts</u>	<u>Grant Expenditures</u>	<u>Grant Receivable</u>
West Virginia Department of Health and Human Resources:					
<u>Uncompensated Care Grant</u>					
(07/01/18 - 06/30/2019)	G190613	\$ 117,455	\$ 7,830	\$ 104,533	\$ 96,703
(07/01/17 - 06/30/2018)	G180358	\$ 141,327	15,546	15,546	-
Total expenditures of state awards			\$ 23,376	\$ 120,079	\$ 96,703

See Notes to Schedule of Expenditures of State Awards

E. A. HAWSE HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state awards (Schedule) includes the state award activity of E. A. Hawse Health Center, Inc. (Organization) under programs of the state government for the year ended May 31, 2019. The information in this Schedule is presented in accordance with the requirements of the State of West Virginia. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization. Additionally, due to the different reporting requirements of the financial statements from those of the above schedule, some amounts presented may differ from amounts presented in, or used in, the preparation of the financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State of West Virginia, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Summary of Significant Accounting Policies

The Organization does not seek reimbursement of indirect costs under its state programs. Additionally, the Organization has never negotiated an indirect cost rate with its cognizant agency. Therefore, the Organization has elected to use the 10% de minimis indirect cost rate.

**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***

Board of Directors
E. A. Hawse Health Center, Inc.
Baker, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of E. A. Hawse Health Center, Inc. (Organization), a nonprofit corporation, which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting (internal control) to determine the auditing 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 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 were not 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002, and 2019-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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*.

E. A. Hawse Health Center, Inc.'s Response to Findings

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and is addressed in a separate letter of response. The Organization's response was not subject 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
December 17, 2019

DHHR - Finance

FEB 14 2020

Date Received

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
E. A. Hawse Health Center, Inc.
Baker, West Virginia

Report on Compliance for the Major Federal Program

We have audited E. A. Hawse Health Center, Inc.'s 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 program for the year ended May 31, 2019. The Organization'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for E. A. Hawse Health Center, Inc.'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 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 (CFR) 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 types of 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 the major federal program. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

Opinion on Major Federal Program

In our opinion, E. A. Hawse Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2019.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a 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 the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of This Report

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Arnett Carbis Toothman LLP

Bridgeport, West Virginia
December 17, 2019

DHHR - Finance

FEB 14 2020

Date Received

E. A. HAWSE HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended May 31, 2019**

SECTION I – SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes _____ X No

Significant deficiency(ies) identified? _____ X Yes _____ None Reported

Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Type of auditor's report issued on compliance for major program: Unmodified

Internal control over major program:

Material weakness(es) identified? _____ Yes _____ X No

Significant deficiency(ies) identified? _____ Yes _____ X None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes _____ X No

Identification of major program:

CFDA Numbers

93.224; 93.527

Name of Federal Program or Cluster

Health Centers Program Cluster

Dollar threshold used to distinguish between type A and type B programs \$ 750,000

Auditee qualified as low-risk auditee? _____ Yes _____ X No

E. A. HAWSE HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended May 31, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

Significant deficiencies in Internal Control over Financial Reporting

Finding 2019 – 001

Finding: Internal control over credit card disbursements; separation of duties

Criteria: Internal controls related to credit card expenditures is critical to ensuring that the Organization has the appropriate approval and support for an expenditure in addition to ensuring that the expense is captured and classified appropriately on the general ledger.

Condition: The Organization has corporate cards issued to several employees. An authorized user of the corporate card was responsible for reconciling and paying the credit card balance. The employee did not obtain approval for certain charges and made several personal charges on the Organization's card. These charges were eventually discovered, though not in a timely manner.

Cause: The Organization did not utilize proper separation of duties to ensure that credit cards expenditures were appropriately authorized.

Effect: The Organization's assets were misused for the personal benefit of an employee. All of the identified expenses were reclassified to a non-allowable expense category for grant, cost reporting, and similar purposes to ensure exclusion from allowable cost.

Recommendation: Management should implement internal control policies that would allow for proper monitoring of all charges and independent approval to the Organization's credit cards and expenses.

Questioned Costs: There were no questioned costs associated with this finding.

Views of Responsible Officials: Management made personnel changes in the accounting department and segregated the responsibility for approval and reconciliation of credit card charges to ensure all expenditures are appropriate and that supporting documentation for each expenditure is obtained.

Finding 2019 – 002

Finding: Management prepared financial statements were not accurate during the period.

Criteria: Internal controls over financial reporting includes the ability to generate accurate financial data on a monthly basis to allow management, the board of directors, and outside entities the review financial statements and make decisions about the Organization.

Condition: The Organization has utilized various "electronic accounting systems" for several years. However, the Organizations data was not accurate enough to produce financial reports.

Cause: The financial officer overseeing the financial reporting module was unable to utilize the accounting system to its fullest capacity. Accordingly, various subsidiary ledgers were not reconciled to the general ledger.

Effect: The Organization was not able to produce accurate internal financial reports that reconciled to subsidiary support.

E. A. HAWSE HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended May 31, 2019**

Recommendation: The Organization should ensure that staff with proper training and skills oversee the financial reporting process and that reconciliations of subsidiary reports is performed monthly.

Questioned Costs: There were no questioned costs associated with this finding.

Views of Responsible Officials: Management made personnel changes in the accounting department and is now effectively utilizing the accounting system to reconcile subsidiary ledgers and provide for accurate financial reporting.

Finding 2019 – 003

Finding: Pharmaceuticals were misappropriated during the year

Criteria: Internal controls over financial reporting include monitoring pharmaceutical inventory to prevent misappropriation.

Condition: A pharmacy employee was able to remove purchased pharmaceuticals received before placing items into inventory.

Cause: The Organization had a process in place to ensure all pharmaceuticals received on shipping documents reconciled to amounts entered into inventory. However, an unauthorized employee was circumventing the system by ordering extra controlled substances, removing them from the order, and reporting the lower amount in the control log. The pharmacist provided login data for ordering, the safe for storing the controlled substances, and the control log to inappropriate staff.

Effect: Pharmaceutical inventory was inappropriately removed from the Organization. Federal investigators have reviewed and fined the Organization due to this situation.

Recommendation: The Organization should implement policies and procedures that independently reconcile all amounts reported on shipping documents to amounts entered into inventory.

Questioned Costs: There were no questioned costs associated with this finding.

Views of Responsible Officials: Management made personnel changes in the pharmaceutical department as well as established procedures to compare inventory received to shipping documents and to compare those amounts to inventory. The amounts are now also verified by the responsible pharmacist weekly and by separate independent administrative employees monthly.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

E. A. HAWSE HEALTH CENTER, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended May 31, 2019**

Material weaknesses in Internal Control over Financial Reporting

Finding 2018 - 001

Finding: Inventories were overstated

Criteria: Internal controls over financial reporting include maintaining an accurate representation of inventory on hand. The Organization maintains both a perpetual and an annual physical inventory count. Controls should be in place to ensure that all pharmaceuticals are properly recorded and accounted for by the Organization.

Condition: The Organization posted purchases of pharmacy items into inventory at the time of purchase but did not reclassify the inventory to pharmacy expense at the time of sale.

Cause: The Organization did not make necessary adjusting entries related to inventory when it made the corresponding entry for pharmacy sales.

Effect: The Organization's balance sheet accounts related to inventory and its pharmacy expense accounts were misstated during the fiscal year.

Recommendation: We recommended that each month as the pharmacy sales are recorded, a corresponding entry for the pharmacy expense be posted. Additionally, the inventory should be reconciled to the inventory count when it is performed annually, if not more frequently to the perpetual inventory counts, available to the Organization.

Questioned Costs: There were no questioned costs associated with this finding.

Subsequent Year Follow-up: Inventory was physically counted and adjusted at year end. Purchases for pharmacy were recorded monthly as expense and sales were recorded as revenue.

Finding 2018 - 002

Finding: Accounts payable and other liabilities were not reviewed and adjusted during the period

Criteria: Internal controls over financial reporting include reconciliation of accounts payable, accrued expenses, and the related expense accounts to supporting documentation, calculations, or subsidiary reports.

Condition: The Organization did not capture invoices in accounts payable in the correct period, resulting in accounts payable being understated by a significant amount. Additionally, it appeared that certain accrued expenses related to payroll and vacation time were not adjusted at year end to the estimated balances. Proper reconciliation of the accounts payable and accrued expense accounts were not done at the fiscal year end.

Cause: The Organization did not enter the proper due date for certain invoices paid subsequent to year end. This resulted in the accounts payable not reflecting some invoices which were paid subsequent to year end. Certain payroll liability accounts record liabilities for amounts withheld from employee paychecks, however, the corresponding payment was occasionally expensed instead of relieving the related liability. This resulted in a situation in which the payroll liability accounts reflected improper balances.

E. A. HAWSE HEALTH CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
Year Ended May 31, 2019

Effect: The Organization's balance sheet liability accounts and expense accounts were not accurate at fiscal year-end.

Recommendation: We recommended that all balance sheet liability accounts be reviewed at least quarterly.

Questioned Costs: There were no questioned costs associated with this finding.

Subsequent Year Follow-up: Accounts payable were recorded in the correct period and the electronic accounts payable system was utilized, producing proper detail of liabilities outstanding at year-end.

Finding 2018 - 003

Finding: Depreciation expense was not posted during the year

Criteria: Internal controls over financial reporting includes recognition of depreciation on fixed assets on a periodic basis to estimate the reduction in value to these assets throughout the year to ensure financial reports are reasonably stated.

Condition: The Organization did not post depreciation expense for the fiscal year.

Cause: The Organization contracts an outside party to maintain its fixed asset listing. Due to miscommunication between the outside entity and the accounting department, the accounting department did not realize it had a reasonable estimate to post depreciation expense.

Effect: The Organization's fixed asset accounts were overstated and depreciation expense accounts were understated during the fiscal year.

Recommendation: We recommended the accounting department obtain a depreciation schedule from the outside vendor and post entries to the accounting records at least monthly. Additionally, the accounting department should report any fixed asset purchases, the estimated useful lives, and appropriate general ledger account to the outside vendor to allow for fixed asset listings to be updated more timely.

Questioned Costs: There were no questioned costs associated with this finding.

Subsequent Year Follow-up: Depreciation estimates were recorded on a monthly basis during the fiscal year.