

Waikiki Health

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018

Waikiki Health
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Waikiki Health
Honolulu, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of Waikiki Health (the "Organization"), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in net assets, 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 Organization'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 Organization'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 Waikiki Health as of December 31, 2019 and 2018, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 15* to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 31, 2020, on our consideration of Waikiki Health'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 solely 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 the effectiveness of Waikiki Health's 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 Waikiki Health's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
December 31, 2020

Waikiki Health
Balance Sheets
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 1,634,324	\$ 2,071,496
Assets limited as to use - current	18,077	103,050
Patient accounts receivable, net of allowance; 2019 – \$589,465, 2018 – \$468,678	975,000	785,117
Grants and other receivables	410,743	381,485
Contributions receivable - current	2,111	-
Estimated amounts due from third-party payors	120,000	-
Supplies	74,242	75,789
Prepaid expenses and other	209,609	227,413
	<u>3,444,106</u>	<u>3,644,350</u>
Assets Limited As To Use		
Internally designated	85,000	85,000
Held by trustee	136,898	188,055
	<u>221,898</u>	<u>273,055</u>
Less amount required to meet current obligations	18,077	103,050
	<u>203,821</u>	<u>170,005</u>
Property and Equipment, At Cost		
Leasehold improvements	3,616,104	3,616,104
Equipment	1,080,559	1,024,060
Construction in progress	6,000	-
	<u>4,702,663</u>	<u>4,640,164</u>
Less accumulated depreciation	2,642,651	2,351,783
	<u>2,060,012</u>	<u>2,288,381</u>
Other Assets		
Deposits	41,077	65,997
	<u>41,077</u>	<u>65,997</u>
Total assets	<u>\$ 5,749,016</u>	<u>\$ 6,168,733</u>

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Accounts payable	\$ 300,565	\$ 237,718
Accrued expenses	884,665	892,832
Deferred grant revenue	<u>162,489</u>	<u>503,566</u>
Total current liabilities	1,347,719	1,634,116
Accrued Rent Payable	<u>434,865</u>	<u>401,215</u>
Total liabilities	<u>1,782,584</u>	<u>2,035,331</u>
Net Assets		
Without donor restrictions	3,830,289	3,570,870
With donor restrictions	<u>136,143</u>	<u>562,532</u>
Total net assets	<u>3,966,432</u>	<u>4,133,402</u>
Total liabilities and net assets	<u>\$ 5,749,016</u>	<u>\$ 6,168,733</u>

Waikiki Health
Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	\$ 14,595,059	\$ 13,287,205
Provision for uncollectible accounts	(197,780)	(52,728)
Net patient service revenue less provision for uncollectible accounts	14,397,279	13,234,477
Grant and contract revenue	4,536,877	5,169,423
Contributions	674,243	961,940
Other	260,138	170,123
Net assets released from restrictions used for operations	626,389	346,283
	20,494,926	19,882,246
Expenses and Losses		
Salaries and wages	9,563,947	10,035,308
Employee benefits	2,377,247	2,340,956
Purchased services and professional fees	1,806,945	1,824,091
Supplies and other	5,391,458	4,801,282
Rent	836,692	809,161
Depreciation	312,198	422,121
	20,288,487	20,232,919
Excess (Deficiency) of Revenues Over Expenses	206,439	(350,673)
Contributions for acquisition of property and equipment	52,980	-
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 259,419	\$ (350,673)

Waikiki Health
Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 206,439	\$ (350,673)
Contributions for acquisition of property and equipment	52,980	-
Increase (decrease) in net assets without donor restrictions	259,419	(350,673)
Net Assets With Donor Restrictions		
Contributions received	200,000	569,532
Net assets released from restriction	(626,389)	(346,283)
Increase (decrease) in net assets with donor restrictions	(426,389)	223,249
Change in Net Assets	(166,970)	(127,424)
Net Assets, Beginning of Year	4,133,402	4,260,826
Net Assets, End of Year	\$ 3,966,432	\$ 4,133,402

Waikiki Health
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018 (Adjusted - Note 15)
Operating Activities		
Change in net assets	\$ (166,970)	\$ (127,424)
Items not requiring (providing) cash		
Loss on sale of property and equipment	-	10,549
Depreciation	312,198	422,121
Contributions for acquisition of property and equipment	(102,980)	-
Changes in		
Patient accounts receivable, net	(189,883)	45,544
Grants and other receivables	(29,258)	(5,861)
Contributions receivable	(2,111)	17,260
Estimated amounts due from third-party payors	(120,000)	-
Prepaid assets	42,724	(84,043)
Beneficial interest in trust	-	161,222
Supplies	1,547	(24,351)
Accounts payable and accrued expenses	54,680	(110,843)
Deferred revenue	(341,077)	50,424
Accrued rent payable	33,650	23,969
	<u>(507,480)</u>	<u>378,567</u>
Investing Activities		
Purchase of property and equipment	(83,829)	(13,888)
	<u>(83,829)</u>	<u>(13,888)</u>
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	102,980	-
Proceeds from issuance of notes payable to bank	-	450,000
Principal payments on notes payable to bank	-	(450,000)
	<u>102,980</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>(507,480)</u>	<u>378,567</u>
Net cash used in investing activities	<u>(83,829)</u>	<u>(13,888)</u>
Net cash provided by financing activities	<u>102,980</u>	<u>-</u>
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(488,329)	364,679
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	2,344,551	1,979,872
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 1,856,222	\$ 2,344,551
Reconciliation of Cash, Cash Equivalents, and Restricted Cash to the Balance Sheets		
Cash and cash equivalents	\$ 1,634,324	\$ 2,071,496
Restricted cash	221,898	273,055
	<u>\$ 1,856,222</u>	<u>\$ 2,344,551</u>

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations

Waikiki Health (the “Organization”) is recognized as a Federally Qualified Health Center (FQHC) by the U.S. Department of Health and Human Services and the State of Hawaii. The Organization primarily earns revenue from providing health care services to patients across Oahu, Hawaii, and from federal and state grants and contributions.

Use of Estimates

The preparation of financial statements in conformity 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market deposit accounts.

At December 31, 2019, the Organization’s cash accounts exceeded federally insured limits by approximately \$1,150,000.

Assets Limited as to Use

Assets limited as to use include (1) cash held by trustees for unemployment claims and (2) cash set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Organization are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients was 86 percent and 76 percent of self-pay accounts receivable at December 31, 2019 and 2018, respectively. The Organization's write-offs decreased approximately \$7,000 from approximately \$84,000 for the year ended December 31, 2018, to approximately \$77,000 for the year ended December 31, 2019.

Supplies

The Organization states supply inventories at the lower of cost or net realizable value, determined using the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	3 – 28 years
Equipment	3 – 5 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Certain property and equipment have been purchased with grant funds received from various federal agencies. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Net Assets With Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

340B Revenue

The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization receives benefits under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs and other expenses.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

	2019	2018
Gross receipts	\$ 6,461,846	\$ 5,798,559
Cost of goods sold	(3,310,136)	(2,745,740)
Other operating expenses	(947,050)	(996,944)
Net 340B revenue	\$ 2,204,660	\$ 2,055,875

The 340B gross receipts are included in net patient service revenue on the statements of operations. The cost of goods sold and other operating expenses are included in operating expenses on the statements of operations. The net 340B revenue from this program is used in furtherance of the Organization's mission.

Government Grant Revenue

Support funded by grants is generally considered a conditional contribution and recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

Waikiki Health

Notes to Financial Statements

December 31, 2019 and 2018

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible federally qualified health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the State, fiscal intermediary, or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when meaningful use objectives have been met and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of \$42,500 and \$59,500, respectively, for the years ended December 31, 2019 and 2018, which is included in other revenue in the statements of operations.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Excess (Deficiency) of Revenues Over Expenses

The statements of operations includes excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

Note 2: Grant Revenue

The Organization is the recipient of a Community Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care services in the Waikiki area and the surrounding neighborhoods of Honolulu, Hawaii. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget.

Grant revenue is recognized as qualifying expenditures are incurred over the grant period. For the years ended December 31, 2019 and 2018, the Organization recognized \$1,648,849 and \$1,820,257, respectively, in revenue from this grant. The Organization's present CHC grant award covers the grant year ending January 31, 2021, and is authorized at \$1,716,212. The CHC grant fund is considered a conditional award. As such, the approved funding, in which the Organization has not yet incurred allowable expenditures, has not been recognized in the financial statements at year-end.

The Organization also receives additional financial support from other federal, state, and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and has been renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statements of operations as a component of net patient service revenue.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare’s Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Organization’s actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2019 and 2018, respectively, was approximately:

	2019	2018
Medicare	\$ 2,739,495	\$ 2,615,374
Medicaid	8,667,947	8,062,166
Other third-party payors	2,822,904	2,261,564
Self-pay	364,713	348,101
	<hr/>	<hr/>
Total	\$ 14,595,059	\$ 13,287,205
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Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, some of whom are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2019 and 2018, is:

	2019	2018
Medicare	22%	23%
Medicaid	54%	53%
Other third-party payors	21%	19%
Self-pay	3%	5%
	100%	100%

Note 5: Beneficial Interest in Trusts

The Organization was the beneficiary of an irrevocable charitable remainder trust controlled by an unrelated third-party trustee. The Organization’s interest in the trust totaling \$161,222 was received in full during 2018.

From time to time, the Organization will be notified that it has been named a beneficiary of a trust. The Organization’s beneficial interest in these trusts is not reflected in the financial statements until the Organization is able to determine that it is not a contingent income beneficiary and are able to obtain sufficient information to make a reasonable estimate of the fair value of the beneficial interest.

Note 6: Conditional Grants and Contributions

The Organization has received the following conditional promises to give at December 31, 2019, that are not recognized in the financial statements:

Given upon incurring allowable expenditures under the agreement	<u><u>\$ 2,423,615</u></u>
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These conditional promises received generally represent awards from federal, state, and other agencies with period of performance extending through June 30, 2023 (see *Note 15* regarding implementation of ASU 2018-08).

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Note 7: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental, and related functions. FTCA coverage is comparable to an occurrence based policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization’s claim experience, no such accrual has been made for the Organization’s medical malpractice cost for the years ended December 31, 2019 and 2018. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future medical claim.

Note 8: Line of Credit

The Organization has a \$500,000 revolving line of credit bearing interest at the bank’s prime rate that expired December 1, 2018, and was not renewed. The line was secured by certain real property. The Organization did not have an outstanding balance on the line of credit at December 31, 2019 and 2018.

Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Health care services	\$ 86,143	\$ 562,532
Technology	50,000	-
	\$ 136,143	\$ 562,532

During the years ended December 31, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amounts of \$626,388 and \$346,283, respectively.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Note 10: Liquidity and Availability

The Organization’s financial assets available within one year of the balance sheet date for general expenditures are:

	2019	2018
Financial assets at year-end		
Cash and cash equivalents	\$ 1,634,324	\$ 2,071,496
Patient accounts receivable, net	975,000	785,117
Grants and other receivables	410,743	381,485
Contributions receivable	2,111	-
Estimated amounts due from third-party payors	120,000	-
Assets limited as to use	221,898	273,055
	<u>3,364,076</u>	<u>3,511,153</u>
Less amounts not available to be used within one year		
Assets limited as to use – long term	203,821	170,005
	<u>203,821</u>	<u>170,005</u>
Financial assets not available to be used within one year	<u>203,821</u>	<u>170,005</u>
Financial assets available to meet general expenditures within one year	<u>\$ 3,160,255</u>	<u>\$ 3,341,148</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

Note 11: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative, and fundraising functional expense classifications based on various methods including square footage and percent of time dedicated to each function. The following schedule presents the natural classification of expenses by function as follows:

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

	2019			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 7,539,250	\$ 1,778,627	\$ 246,070	\$ 9,563,947
Employee benefits	1,872,400	447,932	56,915	2,377,247
Purchased services and professional fees	1,182,933	614,476	9,536	1,806,945
Supplies and other	5,055,039	288,754	47,665	5,391,458
Rent	645,250	188,755	2,687	836,692
Depreciation	-	312,198	-	312,198
	<u>\$ 16,294,872</u>	<u>\$ 3,630,742</u>	<u>\$ 362,873</u>	<u>\$ 20,288,487</u>

	2018			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 6,312,784	\$ 3,470,100	\$ 252,424	\$ 10,035,308
Employee benefits	1,399,775	882,243	58,938	2,340,956
Purchased services and professional fees	1,246,053	570,759	7,279	1,824,091
Supplies and other	4,029,306	640,919	131,057	4,801,282
Rent	612,868	196,293	-	809,161
Depreciation	419,883	2,238	-	422,121
	<u>\$ 14,020,669</u>	<u>\$ 5,762,552</u>	<u>\$ 449,698</u>	<u>\$ 20,232,919</u>

Note 12: Operating Leases

The Organization leases various facilities under operating leases expiring at various dates through 2038.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Future minimum lease payments at December 31, 2019, are:

2020	\$ 480,601
2021	491,333
2022	409,515
2023	405,511
2024	410,762
Thereafter	<u>5,957,296</u>
Future minimum lease payments	<u>\$ 8,155,018</u>

Note 13: Retirement Plan

The Organization has a 403(b) defined contribution retirement plan covering substantially all employees. The Organization provides a contribution equal to a matching percentage of 500 percent of eligible contributions not to exceed 1 percent of employee compensation. Retirement plan expense for the years ended December 31, 2019 and 2018, was \$305,145 and \$302,446, respectively, and is included in employee benefits expense in the statements of operations.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenues

Concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Malpractice Claims

Estimates related to professional liability claims are described in *Note 7*.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of the ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of loss to differ materially in the near term.

340B Drug Pricing Program

The Organization participates in the 340B Drug Discount Pricing Program (340B Program) enabling the Organization to receive discounted prices from the drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to the financial statement amounts related to the 340B Program could occur in the near term.

Note 15: Changes in Accounting Principle

Clarifying Contributions Received and Contributions Made

In 2019, the Organization adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis to all agreements not completed as of January 1, 2019, or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency, or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the 2019 financial statements or the previously reported 2018 financial statements.

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2019, the Organization changed its method of accounting for restricted cash and restricted cash equivalents by adopting the provisions of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in the following changes within the statement of cash flows for inclusion of restricted cash in the beginning of year and end of year values.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

	December 31, 2018		
	As Previously Reported	As Adjusted	Adoption Impact
Investing Activities			
Purchase of assets limited as to use	\$ (65,315)	\$ -	\$ 65,315
Proceeds from disposition of assets limited as to use	32,054	-	(32,054)
Net cash used in investing activities	(47,149)	(13,888)	33,261
Increase in Cash, Cash Equivalents, and Restricted Cash	331,418	364,679	33,261
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	1,740,078	1,979,872	239,794
Cash, Cash Equivalents, and Restricted Cash, End of Year	2,071,496	2,344,551	273,055

Note 16: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically an increased no-show rate as well as reduction in services at certain locations.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. In response to the economic impact of COVID-19, the Organization received the following:

- In May 2020, the Organization was approved for a Paycheck Protection Program (PPP) Loan in the amount of \$1,410,000. This program was established by the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and has certain allowable uses over a covered period of 8 or 24 weeks from the initial distribution date. There is a forgiveness provision which, if followed could result in an all or partial loan forgiveness. Any unforgiven portion of the loan will have a term of two years at an interest rate of 1 percent.
- In March, April, and May 2020, the Organization received additional federal grant awards from the Health Resources and Services Administration (HRSA) totaling Health Center CARES Act Funding totaling \$1,072,905. Each grant award contains specific terms and conditions that must be followed when utilizing this funding.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

- In December of 2020 the Organization received \$266,217 of additional funding support from the Provider Relief Fund of the CARES Act. The funding must be utilized for healthcare-related expenses or lost revenue attributable to COVID-19.
- In June 2020, the Organization received \$324,520 of additional funding from the City and County of Honolulu for COVID-19 related activities including testing and telehealth enhancement services related to COVID-19, with a portion of these funds passed through the Hawaii Primary Care Association.

The overall financial impact and duration of COVID-19 cannot be reasonably estimated at this time.

Subsequent events have been evaluated, through December 31, 2020, which is the date that the financial statements were available to be issued.

Note 17: Future Changes in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. In June 2020, the Financial Accounting Standards Board amended the effective date for the revenue recognition standard for certain entities that have not issued their financial statements. The standard allows either full or modified retrospective adoption with an amended effective date for nonpublic entities for annual periods beginning after December 31, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Waikiki Health
Notes to Financial Statements
December 31, 2019 and 2018

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Waikiki Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)/Health Center Program Cluster	93.224	N/A	\$ -	\$ 446,038
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program/Health Center Program Cluster	93.527	N/A	-	1,202,811
Total Health Center Program Cluster			-	1,648,849
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	(155,855)
U.S. Department of Health and Human Services/State of Hawaii Department of Health/Hawai'i Health and Harm Reduction Center/HIV Care Formula Grants	93.917	ASO Log 18-191	-	347,970
U.S. Department of Health and Human Services/Texas A&M University/Teenage Pregnancy Prevention Program	93.297	02-M1703113	-	85,494
U.S. Department of Health and Human Services/Aloha United Way/Emergency Food and Shelter National Board Program	97.024	None	-	2,650
Total forward			-	1,929,108

Waikiki Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Total forward			\$ -	\$ 1,929,108
U.S. Department of Health and Human Services/State of Hawaii Department of Health/Block Grants for Prevention and Treatment of Substance Abuse	93.959	ASO Log 18-117- M1	-	323,850
U.S. Department of Housing and Urban Development/Alternative Structures International/Continuum of Care Program	14.267	None	-	42,075
U.S. Department of Health and Human Services/Northwestern University/Mental Health Research Grants	93.242	60054206 WH	-	10,000
			<u>\$ -</u>	<u>\$ 2,305,033</u>

Waikiki Health
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Notes to the Schedule

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Waikiki Health under programs of the federal government for the year ended December 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 Waikiki Health, it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of Waikiki Health.
2. 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, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Waikiki Health has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
3. Waikiki Health did not have any federal loan programs during the year December 31, 2019.

Waikiki Health
Schedule of Federal and State Contracts Received from the State of Hawaii
Year Ended December 31, 2019

Program Description	Contract Amount	Federal and State Expenditures/Units Billed		
		Cumulative to December 31, 2018	Year Ended to December 31, 2019	Cumulative to December 31, 2019
State of Hawaii, Department of Health				
Uninsured Primary Care and Behavioral Health Care				
ASO Log Number 14-011				
July 1, 2013 - June 30, 2019	OPEN	\$ 915,840	\$ (5,985)	\$ 909,855
State of Hawaii, Department of Health				
Uninsured Primary Care and Behavioral Health Care				
ASO Log Number 20-011				
August 20, 2019 - June 30, 2025	OPEN	-	43,000	43,000
Substance Abuse Treatment and Recovery Support Services				
ASO Log Number 20-090				
October 1, 2019 - September 30, 2021	900,000	-	87,773	87,773
Substance Abuse Treatment and Recovery Support Services				
CFDA #93.959				
ASO Log Number 18-117				
October 8, 2017 - September 30, 2019	897,800	145,372	323,850	469,222
Total State of Hawaii, Department of Health	1,797,800	1,061,212	448,638	1,509,850
State of Hawaii, Department of Human Services				
State Homeless Shelter Program				
DHS-18-HPO-5030-SA02				
February 1, 2017 - June 30, 2019	3,889,501	2,032,021	1,194,447	3,226,468
State Homeless Shelter Program				
DHS-20-HPO-0037				
October 1, 2019 - June 30, 2020	555,643	-	175,954	175,954
Total State of Hawaii, Department of Human Services	4,445,144	2,032,021	1,370,401	3,402,422
Total Federal and State Expenditures	\$ 6,242,944	\$ 3,093,233	\$ 1,819,039	\$ 4,912,272

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

Independent Auditor's Report

Board of Directors
Waikiki Health
Honolulu, Hawaii

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Waikiki Health (the "Organization"), which comprise the balance sheet as of December 31, 2019, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2020, which contained an "Emphasis of Matters" paragraph regarding changes in accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Board of Directors
Waikiki Health

Compliance and Other Matters

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

Waikiki Health's Responses to Findings

Waikiki Health's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Waikiki Health's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

BKD, LLP

Springfield, Missouri
December 31, 2020

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Waikiki Health
Honolulu, Hawaii

Report on Compliance for the Major Federal Program

We have audited Waikiki Health's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Waikiki Health's major federal program for the year ended December 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 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 compliance for Waikiki Health'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 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. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, Waikiki Health 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 December 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-003 and 2019-004. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Management of Waikiki Health 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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 or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying

Board of Directors
Waikiki Health

schedule of findings and questioned costs as items 2019-003 and 2019-004, that we consider to be significant deficiencies.

Waikiki Health's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Waikiki Health'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.

BKD, LLP

Springfield, Missouri
December 31, 2020

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
- Unmodified Qualified Adverse Disclaimed
2. The independent auditor's report on internal control over financial reporting disclosed:
- Significant deficiency(ies)? Yes None Reported
- Material weakness(es)? Yes No
3. Noncompliance considered material to the financial statements was disclosed by the audit?
- Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal awards program disclosed:
- Significant deficiency(ies)? Yes None Reported
- Material weakness(es)? Yes No
5. The opinion expressed in the independent auditor's report on compliance for the major federal award was:
- Unmodified Qualified Adverse Disclaimed
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?
- Yes No

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Waikiki Health

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2019-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed include:</p> <ul style="list-style-type: none"> • Patient accounts receivable, net of allowance • Estimated amounts due from third-party payors • Grants and other receivables • Deferred grant revenue • Net assets with donor restrictions • Patient service revenue and provision for uncollectible accounts • Grant and contract revenue • Contribution revenue • Other revenue <p>Effect – Adjusting journal entries were proposed during the financial statement audit.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America or identify the needed adjustments on a timely basis.</p> <p>Recommendation – Management should modify monthly and year-end closing procedures to ensure controls in place are sufficient to assure financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. Changes in the organization structure and process improvements have been implemented and procedures are continually being reviewed. Due to the new financial management group just starting to make all policies and procedures at the end of Fiscal Year 2019 and Beginning of Fiscal Year 2020 we were not able to affect the changes in 2019. But we have the Policies and Procedures now in FY 2020. Procedures have been documented and reviewed by our Assistant Controller and this will be reviewed and updated constantly. Planned timing for corrective actions: The creation of new General Ledger (GL) accounts was done in January of 2020, GL account reconciliations are assigned and done along with financial statement review and analysis. We currently share the Grant Accountant responsibilities and are working out uniform procedures. We are working on updated policies that need attention and are documenting our procedures and reviewing them. Individual responsible for planned corrective actions: Octavius Gonzaga, Chief Financial Officer.</p>

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2019-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Chief Financial Officer has duties in the cash receipts/accounts receivable cycle and cash outflows that are incompatible from a control perspective. In addition, the Controller has duties in the payroll cycle that are incompatible from a control perspective.</p> <p>Effect – Potential material misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties are not adequately segregated and monitoring or other compensating controls are insufficient in the cash inflows/accounts receivable and payroll transaction cycles.</p> <p>Recommendation – Management should periodically review the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are deemed to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. Management periodically reviews the costs versus benefits of further segregation of duties and has implemented changes it deemed appropriate for which benefits are deemed to exceed costs. In late FY 2019 the old CFO was let go and a New CFO was then hired and new Policies were activated so the CFO is not involved in the receipts of cash in Revenue Cycle, also accounting and finance is not involved in the preparation of Payroll except monitoring and making sure the Payroll is funded. Planned timing for corrective actions: We are still creating and filling positions for the individuals that left in early 2020, as we are being more careful and understand the need to have strict policies and procedures but also enforce them. We are currently discussing expanding the team from three to four after reviewing what areas we are weak in. Individual responsible for planned corrective actions: Octavius Gonzaga, Chief Financial Officer.</p>

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number	Summary of Finding
2019-003	<p style="text-align: center;">Health Center Program Cluster – CFDA Nos. 93.224 and 93.527</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80CS00053-18-03 Program Year 2019</p> <p>Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303(f))</p> <p>Condition – Patients were inappropriately given discounts under the Organization’s sliding fee policy and certain provisions of the Organization’s policy are not in compliance with the Health Center Compliance Manual.</p> <p>Questioned cost – None</p> <p>Context – The Organization is required to charge patients whose household income is below 100 percent of the Federal Poverty Guideline (FPG) a lower amount than the fee charged to the first sliding fee discount pay class above 100 percent of the FPG. The Organization’s policy currently allows for patients below 100 percent of the FPG and discount pay classes above 100 percent of the FPG to be charged the same amount for certain services.</p> <p>A sample of 40 patients were tested out of the total population of approximately 54,000 encounters. The sampling methodology used is not and is not intended to be statistically valid. Seven patients were not charged the proper fee according to the Organization’s sliding fee scale and two patients in a class above 100 percent of the FPG were charged an amount less than the pay class below 100 percent of the FPG would have been charged for the same services.</p> <p>Effect – Certain patients were not given the proper sliding fee discounts.</p> <p>Cause – Certain provisions of the Organization’s sliding fee policy are not in compliance with the Health Center Compliance Manual and certain discounts were given that were not in accordance with the Organization’s policy.</p>

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number	Summary of Finding
2019-003 (Continued)	<p>Identification as a repeat finding – Repeat findings 2018-003 and 2017-003.</p> <p>Recommendation – Management should modify the sliding fee policy to ensure compliance with the Health Center Program Compliance Manual. In addition, we recommend management continue to ensure all personnel understand the sliding fee scale policy and adhere to the requirements and guidelines set forth in the policy. Procedures should be implemented to ensure that eligible patients receive discounts in accordance with the sliding fee scale. Patient files should include documentation of eligibility to receive sliding fee scale adjustments.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. The sliding fee policy has been modified to ensure compliance with the Health Center Program Compliance Manual. Management continues to ensure all personnel understand the sliding fee policy and adhere to the requirements and guidelines set forth in the policy. Sliding Fee Patients are now verified for the level of the Slide. New Policies and Procedures have been activated in FY 2020. Also, we have been able to pursue the State Sliding Fee payments because all our Sliding Fee Patients have Proof of Income. Planned timing for corrective actions: Procedures have been put in place and the CFO is also sharing the responsibility of keeping the policy and reporting updated by training the Assistant Controller as a backup; so there will be preparation and validation in our process. Individual responsible for planned corrective actions: Octavius Gonzaga, Chief Financial Officer.</p>

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number	Summary of Finding
2019-004	<p style="text-align: center;">Health Center Program Cluster – CFDA Nos. 93.224 and 93.527</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80CS00053-18-03 Program Year 2019</p> <p>Criteria or Specific Requirement – Reporting – 45 CFR 75.342</p> <p>Condition – The Organization is required to prepare and submit an annual Uniform Data System (UDS) report for each calendar year, an annual Federal Financial Report (FFR) for each grant year and quarterly Federal Cash Transaction Reports (FCTR) for each grant budget period. These reports are to be prepared using accurate financial information.</p> <p>Questioned cost – None</p> <p>Context – One report for each report type listed above was selected for testing with specific data from each report selected for testing. The sampling methodology used is not and was not intended to be statistically valid. Of the nineteen inputs tested, four exceptions were noted related to the UDS report and two exceptions were noted related to the annual FFR.</p> <p>Effect – Potential errors were made on the annual UDS and annual FFR reports.</p> <p>Cause – One exception on the UDS was due to the Organization using the accrual basis instead of the cash basis for the preparation of Table 9E. The remaining three exceptions on the UDS occurred as the Organization was unable to provide supporting documentation for the attributes selected for testing. Program income reported on the annual FFR excluded pharmacy revenue and was not reported on a cumulative basis.</p> <p>Identification as a repeat finding – Not a repeat finding.</p> <p>Recommendation – The Organization should revised policies and procedures over federal reporting to ensure reports are prepared using accurate information and supporting documentation for federal grant reports should be maintained.</p>

Waikiki Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Findings Required to be Reported by the Uniform Guidance

Reference Number	Summary of Finding
2019-004 (Continued)	<p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. Policy and procedures over federal reporting has been written to ensure reports are prepared using accurate information and supporting documentation for federal grant reports are maintained.</p> <p>In all of our efforts to find the back up for the 2018 UDS Report filing all we were able to find were the submission files. But we do have the backup for 2019 UDS Report which we reported in March 2020. Planned timing for corrective actions: Policies and procedures have either been updated or created. We have created folders to keep documents organized and also now have a Data Analyst to assist and support Finance in our preparation of required files and reports. Individual responsible for planned corrective actions: Octavius Gonzaga, Chief Financial Officer</p>



Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2018-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed include:</p> <ul style="list-style-type: none"> • Patient accounts receivable, net of allowance • Prepaid expenses and other • Supplies • Assets limited as to use • Accrued expenses • Deferred grant revenue • Net assets with donor restrictions • Patient service revenue • Provision for uncollectible accounts • Operating expenses <p>In addition, the Organization is not timely reconciling its cash accounts.</p> <p>Context – Timely and accurate account reconciliations and review of general ledger details are critical to identify necessary adjustments.</p> <p>Effect – Adjusting journal entries were proposed during the financial statement audit.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America or identify the needed adjustments on a timely basis.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-001 for planned corrective actions.</p>	Unresolved. See finding 2019-001.

Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2018-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Chief Financial Officer has duties in the cash receipts/accounts receivable cycle that are incompatible from a control perspective. In addition, the Controller has duties in the payroll cycle that are incompatible from a control perspective.</p> <p>Context – Generally, access, recording, and monitoring responsibilities within an accounting cycle should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist.</p> <p>Effect – Potential material misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties are not adequately segregated and monitoring or other compensating controls are insufficient in the cash inflows/accounts receivable and payroll transaction cycles.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-002 for planned corrective actions.</p>	Unresolved. See finding 2019-002.

Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2018-003	<p style="text-align: center;">Health Center Program Cluster – CFDA Nos. 93.224 and 93.527</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H80CS00053-17-11 Program Year 2018</p> <p>Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303(f))</p> <p>Condition – Patients were inappropriately given discounts under the Organization’s sliding fee policy and certain provisions of the Organization’s policy are not in compliance with the Health Center Compliance Manual.</p> <p>Questioned cost – None</p> <p>Context – The Organization is required to charge patients whose household income is below 100 percent of the Federal Poverty Guideline (FPG) a lower amount than the fee charged to the first sliding fee discount pay class above 100 percent of the FPG. The Organization’s policy currently allows for patients below 100 percent of the FPG and the first sliding fee discount pay class above 100 percent of the FPG to be charged the same amount for certain services.</p> <p>A sample of 40 patients were tested out of the total population of approximately 49,200 eligible encounters. The sampling methodology used is not and is not intended to be statistically valid. Four patients below 100 percent of the FPG were not charged the proper fee according to the Organization’s sliding fee scale.</p> <p>Effect – Certain patients were not given the proper sliding fee discounts.</p> <p>Cause – Certain provisions of the Organization’s sliding fee policy are not in compliance with the Health Center Compliance Manual and certain discounts were given that were not in accordance with the Organization’s policy.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-003 for planned corrective actions.</p>	Unresolved. See finding 2019-003.

Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2017-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation, including an adjustment applicable to prior years. Areas in which adjustments were proposed include:</p> <ul style="list-style-type: none"> • Patient accounts receivable, net of allowance • Prepaid expenses • Supplies • Assets limited as to use • Accounts payable • Accrued expenses • Temporarily restricted net assets • Patient service revenue • Provision for uncollectible accounts • Operating expenses <p>Context – Timely and accurate account reconciliations and review of general ledger details are critical to identify necessary adjustments.</p> <p>Effect – Adjusting journal entries were proposed during the financial statement audit.</p> <p>Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America or identify the needed adjustments on a timely basis.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-001 for planned corrective actions.</p>	Unresolved. See findings 2018-001 and 2019-001.

Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2017-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Chief Financial Officer has duties in the cash receipts/accounts receivable cycle that are incompatible from a control perspective. In addition, the Controller has duties in the payroll cycle that are incompatible from a control perspective.</p> <p>Context – Generally, access, recording, and monitoring responsibilities within an accounting cycle should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist.</p> <p>Effect – Potential material misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties are not adequately segregated and monitoring or other compensating controls are insufficient in the cash inflows/accounts receivable and payroll transaction cycles.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-002 for planned corrective actions.</p>	<p>Unresolved. See findings 2018-002 and 2019-002.</p>

Waikiki Health
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Finding	Status
2017-003	<p style="text-align: center;">Health Center Program Cluster – CFDA Nos. 93.224 and 93.527</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 3 H80CS00053-16-06 Program Year 2017</p> <p>Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303(f))</p> <p>Condition – Patients were inappropriately given discounts under the Organization’s sliding fee policy and certain provisions of the Organization’s policy are not in compliance with the Health Center Compliance Manual.</p> <p>Questioned cost – None</p> <p>Context – The Organization is required to charge patients whose household income is below 100 percent of the Federal Poverty Guideline (FPG) a lower amount than the fee charged to the first sliding fee discount pay class above 100 percent of the FPG. The Organization’s policy currently allows for patients below 100 percent of the FPG and the first sliding fee discount pay class above 100 percent of the FPG to be charged the same amount for certain services.</p> <p>A sample of 40 patients were tested out of the total population of approximately 40,500 sliding fee discounts. The sampling methodology used is not and is not intended to be statistically valid. Five patients above 100 percent of the FPG received the same discount a patient below 100 percent of the FPG would have received. Five additional patients were not charged the proper fee according to the Organization’s sliding fee scale.</p> <p>Effect – Improper sliding fee discounts were potentially given to patients.</p> <p>Cause – Certain provisions of the Organization’s sliding fee policy are not in compliance with the Health Center Compliance Manual and certain discounts were given that were not in accordance with the Organization’s policy.</p> <p>Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019. See Finding 2019-003 for planned corrective actions.</p>	<p>Unresolved. See findings 2018-003 and 2019-003.</p>

Corrective Action Plan for the Fiscal Year Ended December 31, 2019

Financial Statement Findings – Auditee Response

Contact Person/Individual Responsible: Octavius Gonzaga, Chief Financial Officer

Contact Information: 808.537.8413 / ogonzaga@waikikihealth.org

Findings Required to be Reported by Government Auditing Standards

**Reference
 Number**

Finding

2019-001

Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – The Organization’s financial statements required adjusting journal entries for financial statement presentation. Areas in which adjustments were proposed include:

- Patient accounts receivable, net of allowance
- Estimated amounts due from third-party payers
- Grants and other receivables
- Deferred grant revenue
- Net assets with donor restrictions
- Patient service revenue and provision for uncollectible accounts
- Grant and contract revenue
- Contribution revenue
- Other revenue

Context – Timely and accurate account reconciliations and review of general ledger details are critical to identify necessary adjustments.

Effect – Adjusting journal entries were proposed during the financial statement audit.

Cause – The Organization’s policies and procedures in effect did not identify certain necessary adjustments required to present the financial statements in accordance with accounting principles generally accepted in the United States of America or identify the needed adjustments on a timely basis.

Recommendation – Management should modify monthly and year-end closing procedures to ensure controls in place are sufficient to assure financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. Changes in the organization structure and process improvements have been implemented and procedures are continually being reviewed. Due to the new financial management group just starting to make all policies and procedures at the end of Fiscal Year 2019 and Beginning of Fiscal Year 2020 we were not able to affect the changes in 2019. But we have the Policies and Procedures now in FY 2020. Procedures have been

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2019-001 (Continued)	<p>documented and reviewed by our Assistant Controller and this will be reviewed and updated constantly. Planned timing for corrective actions:</p> <p>The creation of new General Ledger (GL) accounts was done in January of 2020, GL account reconciliations are assigned and done along with financial statement review and analysis. We currently share the Grant Accountant responsibilities and are working out uniform procedures. We are working on updated policies that need attention and are documenting our procedures and reviewing them.</p> <p>2018-001 and 2017-01 Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019 See Finding 2019-001 for planned corrective actions.</p> <p>Patient revenue recording has been updated to reflect payments, contractual adjustments, and bad debt; in the past revenue was recorded as a net amount.</p>

Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2019-002

Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – The Chief Financial Officer has duties in the cash receipts/accounts receivable cycle and cash outflows that are incompatible from a control perspective. In addition, the Controller has duties in the payroll cycle that are incompatible from a control perspective.

Context – Generally, access, recording and monitoring responsibilities within an accounting cycle should be assigned to different individuals. In instances where these duties are not segregated, potential internal control weaknesses exist.

Effect – Potential material misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause – Duties are not adequately segregated and monitoring or other compensating controls are insufficient in the cash inflows/accounts receivable and payroll transaction cycles.

Recommendation – Management should periodically review the costs versus benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are deemed to exceed costs.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. Management periodically reviews the costs versus benefits of further segregation of duties and has implemented changes it deemed appropriate for which benefits are deemed to exceed costs. In late FY 2019 the old CFO was let go and a New CFO was then hired and new Policies were activated so the CFO is not involved in the receipts of cash in Revenue Cycle, also accounting and finance is not involved in the preparation of Payroll except monitoring and making sure the Payroll is funded. Planned timing for corrective actions:

We are still creating and filling positions for the individuals that left in early 2020, as we are being more careful and understand the need to have strict policies and procedures but also enforce them. We are currently discussing expanding the team from three to four after reviewing what areas we are weak in.

Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2019-002

(Continued)

2018-002 and 2017-02

Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019

See Finding 2019-002 for planned corrective actions.

Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2019-003

Health Center Program Cluster –
CFDA Nos. 93.224 and 93.527

U.S. Department of Health and Human Services
Award No. 6 H80CS00053-18-03
Program Year 2019

Criteria or Specific Requirement – Special Tests and Provisions: Sliding Fee Discounts (42 USC 254(k)(3)(g); 42 CFR sections 51c.303(g); and 42 CFR sections 56.303(f))

Condition – Patients were inappropriately given discounts under the Organization’s sliding fee policy and certain provisions of the Organization’s policy are not in compliance with the Health Center Compliance Manual.

Questioned cost – None

Context – The Organization is required to charge patients whose household income is below 100 percent of the Federal Poverty Guideline (FPG) a lower amount than the fee charged to the first sliding fee discount pay class above 100 percent of the FPG. The Organization’s policy currently allows for patients below 100 percent of the FPG and discount pay classes above 100 percent of the FPG to be charged the same amount for certain services.

A sample of 40 patients were tested out of the total population of approximately 54,000 encounters. The sampling methodology used is not and is not intended to be statistically valid. Seven patients were not charged the proper fee according to the Organization’s sliding fee scale and two patients in a class above 100 percent of the FPG were charged an amount less than the pay class below 100 percent of the FPG would have been charged for the same services.

Effect – Certain patients were not given the proper sliding fee discounts.

Cause – Certain provisions of the Organization’s sliding fee policy are not in compliance with the Health Center Compliance Manual and certain discounts were given that were not in accordance with the Organization’s policy.

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
2019-003 (Continued)	<p data-bbox="371 447 1266 474">Identification as a repeat finding – Repeat findings 2018-003 and 2017-003.</p> <p data-bbox="371 520 1341 762">Recommendation – Management should modify the sliding fee policy to ensure compliance with the Health Center Program Compliance Manual. In addition, we recommend management continue to ensure all personnel understand the sliding fee scale policy and adhere to the requirements and guidelines set forth in the policy. Procedures should be implemented to ensure that eligible patients receive discounts in accordance with the sliding fee scale. Patient files should include documentation of eligibility to receive sliding fee scale adjustments.</p> <p data-bbox="371 808 1520 1058">Views of Responsible Officials and Planned Corrective Actions – Management concurs with this finding. The sliding fee policy has been modified to ensure compliance with the Health Center Program Compliance Manual. Management continues to ensure all personnel understand the sliding fee policy and adhere to the requirements and guidelines set forth in the policy. Sliding Fee Patients are now verified for the level of the Slide. New Policies and Procedures have been activated in FY 2020. Also, we have been able to pursue the State Sliding Fee payments because all our Sliding Fee Patients have Proof of Income. Planned timing for corrective actions:</p> <p data-bbox="371 1104 1495 1213">Procedures have been put in place and the CFO is also sharing the responsibility of keeping the policy and reporting updated by training the Assistant Controller as a backup; so there will be preparation and validation in our process.</p> <p data-bbox="371 1260 643 1287">2018-003 and 2017-03</p> <p data-bbox="371 1297 1520 1404">Reason for Recurrence and Status of Corrective Action Planned – Due to turnover in the financial management group in 2019, we were not able to affect the changes in 2019 See Finding 2019-003 for planned corrective actions.</p>

Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2019-004

Health Center Program Cluster –
CFDA Nos. 93.224 and 93.527

U.S. Department of Health and Human Services
Award No. 6 H80CS00053-18-03
Program Year 2019

Criteria or Specific Requirement – Reporting – 45 CFR 75.342

Condition – The Organization is required to prepare and submit an annual Uniform Data System (UDS) report for each calendar year, an annual Federal Financial Report (FFR) for each grant year and quarterly Federal Cash Transaction Reports (FCTR) for each grant budget period. These reports are to be prepared using accurate financial information.

Questioned cost – None

Context – One report for each report type listed above was selected for testing with specific data from each report selected for testing. The sampling methodology used is not and was not intended to be statistically valid. Of the nineteen inputs tested, four exceptions were noted related to the UDS report and two exceptions were noted related to the annual FFR.

Effect – Potential errors were made on the annual UDS and annual FFR reports.

Cause – One exception on the UDS was due to the Organization using the accrual basis instead of the cash basis for the preparation of Table 9E. The remaining three exceptions on the UDS occurred as the Organization was unable to provide supporting documentation for the attributes selected for testing. Program income reported on the annual FFR excluded pharmacy revenue and was not reported on a cumulative basis.

Identification as a repeat finding – Not a repeat finding.

Recommendation – The Organization should revise policies and procedures over federal reporting to ensure reports are prepared using accurate information and supporting documentation for federal grant reports should be maintained.

Findings Required to be Reported by Government Auditing Standards

**Reference
Number**

Finding

2019-004

(Continued) Management concurs with this finding. Policy and procedures over federal reporting has been written to ensure reports are prepared using accurate information and supporting documentation for federal grant reports are maintained. Views of Responsible Officials and Planned Corrective Actions – In all of our efforts to find the back up for the 2018 UDS Report filing all we were able to find were the submission files. But we do have the backup for 2019 UDS Report which we reported in March 2020. Planned timing for corrective actions:

Policies and procedures have either been updated or created. We have created folders to keep documents organized and also now have a Data Analyst to assist and support Finance in our preparation of required files and reports.