

Rocky Mountain Human Services

Financial Statements and Supplementary Information

June 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

Kundinger, Corder & Engle, P.C.

Certified Public Accountants

Rocky Mountain Human Services

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Independent Auditor's Report

Board of Directors Rocky Mountain Human Services:

Report on the Financial Statements

We have audited the accompanying financial statements of Rocky Mountain Human Services (RMHS), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RMHS as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Directors
Rocky Mountain Human Services**

Other Matters - Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 November 14, 2018, on our consideration of RMHS' 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 RMHS' 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 RMHS' internal control over financial reporting and compliance.

KUNDINGER, CORDER & ENGLE, P.C.

November 14, 2018

Rocky Mountain Human Services
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets:		
Cash and cash equivalents	\$ 1,937,696	3,937,573
Receivables:		
Service receivables, less allowance for uncollectible accounts of \$970,648 in 2018 and \$852,240 in 2017	3,328,741	4,828,943
Mill levy receivables	4,379,401	2,242,969
State grant receivables	644,763	1,021,144
Other receivables	147,256	266,745
Net accounts receivable	8,500,161	8,359,801
Prepaid expenses and other assets	65,649	141,151
Restricted cash and cash equivalents (note 2)	211,756	208,312
Property and equipment (note 3):		
Land	1,231,000	1,231,000
Buildings and improvements	7,681,062	7,942,706
Equipment	3,500,116	3,386,701
Furniture, fixtures, vehicles	951,768	1,064,261
Less accumulated depreciation and amortization	(8,182,201)	(8,128,635)
Net property and equipment	5,181,745	5,496,033
Total assets	\$ 15,897,007	18,142,870
 Liabilities and Net Assets:		
Accounts payable	\$ 2,035,148	1,502,531
Accrued liabilities	1,580,642	4,205,292
Deferred revenue and rent	60,817	526,239
Bonds and notes payable, net (note 3)	9,792,440	11,506,401
Total liabilities	13,469,047	17,740,463
Net assets:		
Unrestricted	2,427,960	402,407
Total net assets	2,427,960	402,407
Commitments and contingency (notes 4 and 5)		
Total liabilities and net assets	\$ 15,897,007	18,142,870

See the accompanying notes to the financial statements.

Rocky Mountain Human Services
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenue:		
Service coordination	\$ 4,626,453	4,777,284
Behavioral health services	641,188	815,897
Child and family services	10,960,686	10,596,577
Special projects	8,637,724	2,034,619
Life skills and support services	10,933,168	12,105,124
Housing and employment for veterans	2,781,531	3,168,291
Other programs	3,836,834	3,327,613
Total operating revenue	42,417,584	36,825,406
Expenses:		
Program services:		
Service coordination	4,093,854	4,103,325
Behavioral health services	538,658	664,233
Child and family services	8,707,957	8,816,072
Special projects	8,082,765	1,812,537
Life skills and support services	10,352,526	11,326,615
Housing and employment for veterans	2,653,742	3,151,105
Other programs	2,141,637	2,349,759
Total program services	36,571,139	32,223,646
Supporting services:		
Management and general	4,486,730	4,189,791
Total supporting services	4,486,730	4,189,791
Total operating expenses	41,057,869	36,413,437
Total operating net income	1,359,715	411,969
Non-operating revenue and expenses:		
Contributions and grants	50,364	165,935
Billing revenue	593,090	738,584
Other revenue	34,532	35,536
Fund raising expenses	(12,148)	(43,082)
Total non-operating revenue and expenses	665,838	896,973
Change in net assets	2,025,553	1,308,942
Net assets (deficit) at beginning of year	402,407	(906,535)
Net assets at end of year	\$ 2,427,960	402,407

See the accompanying notes to the financial statements.

Rocky Mountain Human Services
Statement of Functional Expenses
Year Ended June 30, 2018

	Service coordination	Behavioral health services	Child and family services	Special projects	Life skills and support services	Housing and employment for veterans	Other programs	Total program services	Management and general	Fund raising	Total expenses
Salaries	\$ 2,817,076	387,585	3,029,083	253,656	1,426,942	1,031,225	-	8,945,567	2,594,633	6,179	11,546,379
Payroll taxes	222,077	28,257	241,822	20,225	112,086	83,478	-	707,945	193,699	441	902,085
Benefits	395,420	69,067	466,029	95,663	274,619	142,444	-	1,443,242	386,104	1,401	1,830,747
Client expenses:											
Services and activities	17	-	2,382,156	1,670,447	405,498	-	19,589	4,477,707	7,562	-	4,485,269
Professional services	2,267	4	1,245,502	3,152,429	31,786	9	201	4,432,198	4,269	-	4,436,467
Habilitation services	-	-	-	515,228	1,586,110	-	1,061,150	3,162,488	-	-	3,162,488
Respite	-	-	667,815	1,447,553	918,292	-	20,089	3,053,749	-	-	3,053,749
Personal care	941	102	30,281	308,331	1,627,819	138	6,743	1,974,355	-	-	1,974,355
Transportation	-	-	3,092	45,109	327,104	18,332	1,022,032	1,415,669	-	-	1,415,687
Housing	135	-	-	303,692	3,164,646	934,628	9,929	4,413,030	18	250	4,413,280
Other expenses	-	-	331	187,905	81,217	-	-	269,453	-	-	269,453
Professional fees	57,356	7,018	56,080	10,687	69,207	17,639	-	217,987	311,222	952	530,161
Office supplies	203,749	16,079	210,996	9,950	121,149	110,921	-	672,844	203,806	416	877,066
Occupancy	103,683	7,051	83,161	23,686	55,482	145,621	1,271	419,955	97,277	188	517,420
Travel	52,813	5,173	65,716	3,106	23,017	17,746	314	167,885	10,510	54	178,449
Conferences	4,519	695	10,279	1,619	5,399	323	281	23,115	27,838	74	51,027
Interest	94,523	6,491	75,611	3,900	36,156	14,066	-	230,747	114,061	63	344,871
Depreciation	125,625	9,139	107,055	4,977	56,304	65,888	-	368,988	101,396	75	470,459
Insurance	12,801	1,992	11,562	6,136	10,524	9,130	-	52,145	59,238	739	112,122
Bad debt	-	-	15,000	-	7,944	-	-	22,944	207,456	-	230,400
Other expenses	852	5	6,386	18,466	11,225	62,154	38	99,126	167,641	1,316	268,083
Total expenses	\$ 4,093,854	538,658	8,707,957	8,082,765	10,352,526	2,653,742	2,141,637	36,571,139	4,486,730	12,148	41,070,017

See the accompanying notes to the financial statements.

Rocky Mountain Human Services
Statement of Functional Expenses
Year Ended June 30, 2017

	Service coordination	Behavioral health services	Child and family services	Special projects	Life skills and support services	Housing and employment for veterans	Other programs	Total program services	Management and general	Fund raising	Total expenses
Salaries	\$ 2,776,509	490,153	3,264,125	113,626	1,697,295	1,307,567	945	9,650,220	2,159,257	15,537	11,825,014
Payroll taxes	231,370	35,372	270,952	7,554	137,659	110,858	75	793,840	165,360	1,326	960,526
Benefits	392,404	67,037	467,881	17,759	284,960	189,884	129	1,420,054	322,853	2,132	1,745,039
Client expenses:											
Services and activities	-	-	2,580,475	198,931	495,413	-	39,979	3,314,798	-	-	3,314,798
Professional services	1,384	175	974,192	358,994	37,011	-	534	1,372,290	-	-	1,372,290
Habilitation services	-	-	-	51,832	2,072,922	50	1,187,265	3,312,069	-	-	3,312,069
Respite	-	-	521,049	702,431	1,018,345	-	17,772	2,259,597	-	-	2,259,597
Personal care	600	-	26,789	212,271	1,733,001	9,399	15,458	1,997,518	-	-	1,997,518
Transportation	-	-	4,456	13,561	397,324	21,989	1,012,275	1,449,605	-	-	1,449,605
Housing	-	-	-	33,757	2,893,886	918,071	7,791	3,853,505	-	-	3,853,505
Other expenses	-	-	3,910	62,769	64,306	-	53,790	184,775	-	-	184,775
Professional fees	50,492	12,506	80,167	15,000	82,423	13,834	94	254,516	406,921	1,927	663,364
Office supplies	180,152	13,671	189,704	-	114,901	106,382	530	605,340	176,804	8,469	790,613
Occupancy	98,394	9,461	61,986	23,548	70,406	179,648	548	443,991	178,058	3,156	625,205
Travel	48,966	4,185	54,910	468	22,165	24,615	-	155,309	2,097	330	157,736
Conferences	5,907	11	8,036	36	1,181	310	-	15,481	21,061	155	36,697
Interest	118,707	12,111	112,861	-	76,384	24,462	5,935	350,460	128,282	3,206	481,948
Depreciation	176,979	14,607	161,422	-	80,478	228,179	217	661,882	202,571	3,828	868,281
Insurance	11,466	4,938	29,346	-	31,812	8,653	6,412	92,627	14,802	137	107,566
Bad debt	-	-	-	-	-	-	-	-	285,955	-	285,955
Other expenses	9,995	6	3,811	-	14,743	7,204	10	35,769	125,770	2,879	164,418
Total expenses	\$ 4,103,325	664,233	8,816,072	1,812,537	11,326,615	3,151,105	2,349,759	32,223,646	4,189,791	43,082	36,456,519

See the accompanying notes to the financial statements.

Rocky Mountain Human Services
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,025,553	1,308,942
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	450,324	868,281
Amortization of debt issuance costs	20,135	21,228
Bad debt expense	230,400	285,955
(Increase) decrease in operating assets:		
Accounts receivable	(370,760)	(2,112,307)
Prepaid expenses and other assets	75,502	25,086
Restricted cash and cash equivalents	(3,444)	2,943
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(2,092,033)	2,250,543
Deferred revenue and rent	(465,422)	205,152
Net cash provided by (used in) operating activities	<u>(129,745)</u>	<u>2,855,823</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(136,036)</u>	<u>(43,598)</u>
Net cash used in investing activities	<u>(136,036)</u>	<u>(43,598)</u>
Cash flows from financing activities:		
Principal payments on bonds and notes payable	<u>(1,734,096)</u>	<u>(1,248,505)</u>
Net cash used in financing activities	<u>(1,734,096)</u>	<u>(1,248,505)</u>
Increase (decrease) in cash and cash equivalents	(1,999,877)	1,563,720
Cash and cash equivalents at beginning of year	<u>3,937,573</u>	<u>2,409,853</u>
Cash and cash equivalents at end of year	<u>\$ 1,937,696</u>	<u>3,937,573</u>
Supplemental cash flow information:		
Interest paid	<u><u>\$ 353,186</u></u>	<u><u>477,365</u></u>

See the accompanying notes to the financial statements.

Rocky Mountain Human Services
Notes to Financial Statements
June 30, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Organization

Rocky Mountain Human Services (RMHS) is a not-for-profit corporation designated by the State of Colorado as a Community Centered Board to coordinate programs to provide services to individuals with developmental disabilities in the City and County of Denver. RMHS also provides services and programs in addition to those specific to its designation as a Community Centered Board. RMHS is supported primarily through governmental and client service revenue, grants, and contributions. RMHS' services and programs can be categorized under the following pillars:

Service Coordination: Case management includes intake activities and eligibility determination, the facilitation of enrollment into home and community-based services, and locating, coordinating, and monitoring developmental disabilities services. Service coordinators monitor the effective and efficient provision of services across multiple funding sources and may also assist clients with obtaining non-developmental disabilities funded medical, social, education, and other services.

Behavioral Health Services: Behavioral and mental health services are provided to adults with intellectual and developmental disabilities and other cognitive needs, and the clinic specializes in care for adults with complex coordination of care needs.

Child and Family Services: RMHS provides services to children and adolescents with developmental delays or disabilities, including autism, under three programs. The Early Intervention (EI) program provides case management and child development services to eligible infants and toddlers, and their families, in the areas of cognition, speech and communication, sensory and motor development, social and emotional development, and self-help skills. The Children's Clinical program provides comprehensive assessment, consultation, and intervention services to infants, children, and adolescents under age nineteen, and children with autism spectrum disorder. The Family Support Services Program (FSSP) provides support for families who have children with developmental disabilities or delays with costs that are beyond those normally experienced by other families and focuses on preventing out-of-home placements.

Special Projects: This program provides services and resources not available from other funding sources to individuals with intellectual developmental disabilities and delays (I/DD). Additionally, the program provides funding to other agencies offering services to individuals with I/DD. Services and resources provided including behavioral/mental health; basic needs/environmental supports; education and increasing independence; medical/dental; social/recreational; training and support; and services addressing system gaps.

Rocky Mountain Human Services

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(a) Organization, Continued

Life Skills and Support Services: This program provides direct care for adults and children with intellectual and developmental disabilities through the Home and Community-Based Services Waiver for Developmentally Disabled (HCBS-DD), Supported Living Services Waiver (SLS), and Children's Extensive Waiver (CES). HCBS-DD provides 24/7 home living arrangements and all associated supports; SLS and CES services include, but are not limited to, home health care, daily living skills coaching, and independent living support. Depending on individual needs, clients may also be provided caregiver respite, personal care, behavioral services, mentorship, transportation, hippotherapy, movement therapy, massage therapy, day habilitation, basic and enhanced homemaker services, supported employment, and community connections.

Housing and Employment for Veterans: RMHS provides stable housing services to Veterans who are homeless or at risk of becoming homeless, while addressing root causes of homelessness through case management.

Other programs: Transportation services to daily activities are available to adult clients who have the ability to participate in independent local travel. The Program Approved Service Agency (PASA) Administration program provides general oversight and administrative services to PASAs which enable clients to receive services from the provider of their choice.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

(c) Financial Statement Presentation

RMHS reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. RMHS did not have any temporarily restricted or permanently restricted net assets at June 30, 2018 and 2017.

(d) Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Restrictions met in the same period in which the related contributions are received are recorded as unrestricted support.

Rocky Mountain Human Services
Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(e) Contributed Property and Services

Contributed property and equipment are recorded as unrestricted support at its estimated fair value at date of donation. Donated goods and services are recorded as contributions and corresponding expenses at their estimated fair values at the date of donation. A number of volunteers have donated their time in connection with RMHS' activities. No amounts have been reflected in the accompanying financial statements for volunteers' donated services because they do not meet the criteria for recognition.

(f) Recognition of Income

Program services revenue is deemed to be earned and is reported as revenue when RMHS has incurred expenditures or performed services in compliance with the provisions of the respective service agreements. Cash received for contracts in excess of allowable expenses incurred is recorded as unearned revenue, and allowable expenses incurred on contracts in excess of cash received are recorded as a receivable. Net client service revenue is reported at the estimated net realizable amounts from third party payors and others for services rendered and includes estimated retroactive adjustments.

(g) Debt Issuance Costs

RMHS incurred debt issuance costs on a bond issue and two term loans totaling \$303,268 which are being amortized over the life of the respective bond and loans. The balance at June 30, 2018 and 2017 was \$201,856 and \$223,085, respectively, and amortization expense was \$20,135 in 2018 and \$21,228 in 2017.

(h) Cash and Cash Equivalents

For purposes of the statements of cash flows, RMHS considers all unrestricted highly liquid instruments with original maturities of three months or less to be cash equivalents.

(i) Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and on analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible.

(j) Property and Equipment

Property and equipment is recorded at cost. RMHS capitalizes all expenditures for property and equipment in excess of \$2,500. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from two to forty years. Leasehold improvements are amortized ratably over the lesser of the lease term or their respective estimated useful life.

(k) Deferred Rent

Deferred rent represents the unamortized portion of lessor incentives (free rent and reimbursed tenant expenses) received in conjunction with several of RMHS' office leases. RMHS amortizes deferred rent over the lives of the leases.

Rocky Mountain Human Services

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(l) Concentrations of Credit Risk

Financial instruments that potentially subject RMHS to concentrations of credit risk consist of cash and cash equivalents and receivables. RMHS places its cash and cash equivalents with creditworthy, high quality, financial institutions. At times, a portion of these cash and balances may not be insured by the Federal Deposit Insurance Corporation or related entity. Credit risk with respect to trade receivables is generally diversified due to the large number of entities and credit-worthiness of the organizations that comprise RMHS' customer base.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure on contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(n) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

(o) Income Taxes

RMHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualify for the charitable contribution deduction. However, income from activities not directly related to RMHS' tax-exempt purpose is subject to taxation as unrelated business income. RMHS incurred no unrelated business income tax during 2018 or 2017.

Management is required to evaluate tax positions taken by the entity and to recognize a tax liability if an entity has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. RMHS believes that it has appropriate support for any tax positions taken and that none would require recognition of a liability or disclosure in the financial statements. RMHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Tax returns for the previous three years are subject to examination by the IRS, generally for three years after initial filing.

(p) Subsequent Events

Management is required to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. RMHS' financial statements were available to be issued on November 14, 2018, and this is the date through which subsequent events were evaluated.

On July 1, 2018, RMHS entered into two thirty-month capital equipment lease agreements totaling \$1,200,000. See note 3 also.

Rocky Mountain Human Services

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on the change in net assets.

(2) Restricted Cash and Cash Equivalents

RMHS receives funds on behalf of certain clients that are restricted by government agencies for the exclusive benefit of the named clients. RMHS is required by the bond agreement to make deposits equal to 10% of the annual interest and principal due into a restricted repayment account during the months of January through October for purposes of funding monthly bond payment (see note 3). At June 30, 2018 and 2017, these funds totaled \$211,756 and \$208,312, respectively.

(3) Bonds and Notes Payable

On December 1, 2012, RMHS entered into an agreement for an \$11,100,000 Bond Issue secured by the deed of trust for the administrative building which carries a fixed interest rate of 3.27%. At June 30, 2018 and 2017, the bonds had a balance of \$8,446,237 and \$8,975,922, respectively. Principal and interest totaling \$67,942 are due monthly through February 1, 2031. The bonds have certain financial covenants which have been met at June 30, 2018 and 2017.

On December 19, 2013, RMHS entered into a seven-year, \$1,400,969 term loan agreement which is secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 3.95%. At June 30, 2018 and 2017, the loan had a balance of \$500,000 and \$713,782, respectively. Principal and interest payments totaling \$19,140 are due monthly through January 2021. This loan has certain financial covenants which have been met at June 30, 2018 and 2017. Effective July 1, 2018, this term loan was extinguished.

On November 25, 2014, RMHS entered into a seven-year, \$1,599,304 term loan agreement which is secured by certain inventory, accounts, furniture and equipment and carries a fixed interest rate of 4.24%. At June 30, 2018 and 2017, the loan had a balance of \$700,000 and \$988,382, respectively. Principal and interest payments totaling \$24,956 are due monthly through January 2021. This loan has certain financial covenants which have been met at June 30, 2018 and 2017. Effective July 1, 2018, this term loan was extinguished.

During fiscal 2016, as a result of discontinued operations, RMHS terminated a lease agreement early, and on December 31, 2015, negotiated a \$373,154 unsecured loan agreement with the landlord for payment of the early termination fee over a five-year period. No payments are required for the first two years, then beginning November 1, 2017, monthly payments are required as follows: \$5,000 through October 2018; \$7,500 through October 2019; \$10,000 through October 2020, and a balloon payment totaling \$191,461 is due on October 1, 2020. The note bears an interest rate of 5%. During fiscal year 2018, this loan was paid in full.

RMHS had a revolving line of credit with a bank in the amount of \$1,000,000 with a variable interest rate at 2.75% over Prime Rate. On April 25, 2016, the outstanding balance totaling \$1,000,000 on the line of credit was converted into a term loan secured by certain inventory, accounts, furniture and equipment with an interest rate of 3.5%. Beginning in July 2016, principal and interest payments totaling \$29,430 are due monthly through June 2019. At June 30, 2018 and 2017, the loan had a balance of \$348,059 and \$678,246, respectively. This loan has certain financial covenants which have been met at June 30, 2018 and 2017.

Rocky Mountain Human Services
Notes to Financial Statements

(3) Bonds and Notes Payable, Continued

RMHS opened a line of credit for \$750,000 on July 2, 2018 with a variable interest rate of 0.85% over Prime Rate secured by personal property. A draw down of \$700,000 was made in August 2018, then subsequently repaid in September 2018. The line of credit matures on February 1, 2020.

Aggregate future minimum principal payments on the bonds and notes are as follows as of June 30:

2019	\$ 2,089,150
2020	565,434
2021	584,203
2022	603,595
2023	623,632
Thereafter	<u>5,528,282</u>
Total bonds and notes payable	9,994,296
Less unamortized debt issuance costs	<u>(201,856)</u>
Total bonds and notes payable, net	\$ <u>9,792,440</u>

Interest expense during the years ended June 30, 2018 and 2017 totaled \$344,871 and \$481,948, respectively.

(4) Operating Leases

RMHS leases office space, equipment, and vehicles used in operations under non-cancelable operating lease agreements. The leases expire at different dates through October 2021. Future minimum lease payments under these non-cancelable operating leases are as follows as of June 30:

2019	\$ 56,632
2020	27,919
2021	11,153
2022	<u>1,986</u>
	\$ <u>97,690</u>

Total office, equipment, and vehicle rent expense for the years ended June 30, 2018 and 2017 was \$156,680 and \$321,734, respectively.

(5) Retirement Plan

RMHS maintains a tax sheltered annuity plan (the Plan) which covers substantially all employees. Eligible employees may begin to participate in the Plan with elective deferral contributions on the date of hire. An employee becomes eligible for employer matching contributions after six months of service. Under the Plan, beginning January 1, 2017, RMHS matched 2% of eligible compensation. On January 1, 2018, the match increased to 3% of eligible compensation. For the years ended June 30, 2018 and 2017, RMHS contributed \$220,380 and \$82,343, respectively, to the Plan.

Rocky Mountain Human Services
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Pass-through Entity Identifying Number	Federal CFDA number	Federal expend- itures
<i>U.S. Department of Veteran Affairs:</i>			
<i>Direct Programs:</i>			
VA Supportive Services for Veteran Families	C15-CO-504A	64.033	\$ 295,220
VA Supportive Services for Veteran Families	12-ZZ-020	64.033	505,854
VA Supportive Services for Veteran Families	18-ZZ-020	64.033	1,980,457
Subtotal 64.033			<u>2,781,531</u>
<i>Total Direct Programs</i>			<u>2,781,531</u>
<i>Total U.S. Department of Veteran Affairs</i>			<u>2,781,531</u>
<i>U.S. Department of Education</i>			
<i>Pass-through Programs From:</i>			
State of Colorado, Department of Human Services:			
Special Education - Grants for Infants and Families with Disabilities	18IHIA107647	84.181A	296,711
Subtotal 84.181A			<u>296,711</u>
<i>Total Pass-through Programs</i>			<u>296,711</u>
<i>Total U.S. Department of Education</i>			<u>296,711</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Pass-through Programs From:</i>			
University of Colorado:			
Screening and Linkage to Services for Autism	6R40MC27702-03-03	93.110	24,138
State of Colorado, Department of Health Care Policy and Financing:			
Medical Assistance Program	15-67177A2	93.778	267,945
University of Illinois:			
Child Health and Human Development Extramural Research	16105	93.965	3,590
<i>Total Pass-through Programs</i>			<u>295,673</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>295,673</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 3,373,915</u>

Rocky Mountain Human Services
Schedule of Expenditures of Federal Awards, Continued
Year Ended June 30, 2018

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Rocky Mountain Human Services (RMHS) under programs of the federal government for the year ended June 30, 2018. 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 Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of RMHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of RMHS.

Note 2: Summary of Significant Accounting Policies

- (a) Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as applicable, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) RMHS has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

**Board of Directors
Rocky Mountain Human Services:**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rocky Mountain Human Services (RMHS), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RMHS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RMHS' internal control. Accordingly, we do not express an opinion on the effectiveness of RMHS' internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RMHS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Board of Directors
Rocky Mountain Human Services:**

RMHS' Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

KUNDINGER, CORDER & ENGLE, P.C.

November 14, 2018

**Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance**

**Board of Directors
Rocky Mountain Human Services:**

Report on Compliance for Each Major Federal Program

We have audited Rocky Mountain Human Services (RMHS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of RMHS' major federal programs for the year ended June 30, 2018. RMHS' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of RMHS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 RMHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of RMHS' compliance.

Opinion on Each Major Federal Program

In our opinion, RMHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which 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 2018-002 and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

**Board of Directors
Rocky Mountain Human Services:**

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

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

Our consideration of 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 must 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 schedule of findings and questioned costs as items 2018-002 and 2018-003, that we consider to be significant deficiencies.

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

KUNDINGER, CORDER & ENGLE, P.C.

November 14, 2018

Rocky Mountain Human Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Rocky Mountain Human Services (RMHS) were prepared in accordance with GAAP.
2. One significant deficiency relating to the audit of the financial statements is reported in the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of RMHS, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance*. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for RMHS expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The major program tested was: Department of Veteran Affairs, VA Supportive Services for Veteran Families Program, CFDA No. 64.033.
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. RMHS was determined to be a low-risk auditee.

B. Findings-Financial Statement Audit

2018-001 Revenue Recognition and Month-End Close – Significant Deficiency

Criteria and Condition: The accounting records should be a reflection of the activity in the billing system, and the accounting team should have procedures in place to ensure a timely and accurate month-end closing process for all accounts. During the audit, we had difficulty obtaining supporting documentation from the billing system for certain service receivables, contractual adjustments, the allowance for doubtful accounts, and client billing revenue recorded in the accounting system. At the start of the audit, some non-revenue accounts had not been reconciled to third party documents during the year.

Context: RMHS underwent a system conversion of their billing software in Spring 2017 to ensure RMHS was in compliance with hierarchy billing required by one of their major funders. RMHS has been gaining an understanding of how the new system reports activity when one insurer denies a claim that is then submitted to another insurer, including how to finalize a claim in the system once paid.

Cause: RMHS discovered limitations in the billing system during the first year of implementation, and the accounting department did not gain a full understanding of the parameters surrounding the reports they were relying on. Due to personnel changes at RMHS, training on the month-end close process has not been prioritized.

Rocky Mountain Human Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

B. Findings-Financial Statement Audit, Continued

2018-001 Revenue Recognition and Month-End Close – Significant Deficiency, Continued

Effect: Several journal entries were made during the audit to ensure proper classification of all accounts in the financial statements. One audit adjustment was made to write-off an uncollectable receivable from the prior year. Because billing revenue was recorded in the accounting records based solely on the initial insurer, reclassifications were made during the audit based on funding source changes that occurred after initial billing. The accounts receivable aging report was not regularly reviewed for timely paybacks and write-offs, thus management has assessed an allowance for doubtful accounts that will cover any write-offs that occur as the billing department cleans up and adjusts old items. Non-revenue accounts were not reconciled against outside documentation, thus journal entries were made to true-up these accounts.

Recommendation: We recommend the accounting department develop a portfolio of reports from the new billing system to be used in the month-end reconciliation process for all client billing revenue and receivable accounts. While developing these reports, we recommend the accounting department work closely with the billing department to ensure reports are designed to include all relevant information needed for the month-end close process and to ensure accounting staff have a full understanding of the controls surrounding the billing software and its reports. We further recommend management expand the abilities of accounting staff and rebalance tasks amongst the department. We recommend the accounting department also update their accounting policies and procedures to include these changes.

Views of Responsible Officials and Planned Corrective Actions: Financial and Revenue Cycle management are developing new procedures and reports to improve information available for the monthly close. These reports, new policies and procedures are being developed to reconcile accounts receivable and revenues on a monthly basis. Finance staff will be assigned specific roles as part of the monthly close.

C. Findings and Questioned Costs-Major Federal Award Programs Audit

Federal Agency: Department of Veterans Affairs

Federal Program and CFDA Number: VA Supportive Services for Veteran Families, 64.033

Identification Number: C15-CO-504A, 12-ZZ-020, 18-ZZ-020

Grant Period: October 1, 2016 – September 30, 2017 and October 1, 2017 – September 30, 2018

2018-002 Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: The VA Supportive Services for Veteran Families program guide states enrollees in the program must exit the program within three months of entering or must be recertified every three months for continued participation in the program. During our testing of forty enrollees, we noted the following:

- One enrollee's recertification was completed three weeks after the required three month deadline.
- One enrollee was exited two weeks after the required three month deadline.

Rocky Mountain Human Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

C. Findings and Questioned Costs-Major Federal Award Programs Audit, Continued

2018-002 Eligibility – Significant Deficiency in Internal Control over Compliance, Continued

Cause: The control used for tracking deadlines did not function properly because the date used to initiate the tracking function for each enrollee was not consistently used amongst program staff.

Effect: Although this finding did not result in any questioned costs, enrollees were not recertified or exited timely indicating there may be administrative program requirements that are not being met.

Recommendation: All program staff should be trained on which date the grant program requires to be used as the start of the certification period so that the three month timeline is properly and consistently tracked for all enrollees.

Views of Responsible Officials and Planned Corrective Actions: RMHS will provide training to all staff regarding the correct date to be used for calculating the three-month deadline and will implement procedures that alert staff as the deadline approaches.

2018-003 Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: Enrollees in the program must meet “Very Low-Income” requirements which is defined by the program as annual income less than 50% of area median income. Documentation supporting current income must be annualized per procedures prescribed by the VA Supportive Services for Veteran Families program guide. Income verification is required during initial verification and during subsequent recertification. Certificates of eligibility must be signed by the program staff completing the certification or recertification as well as their supervisor. During our testing of forty enrollees, we noted the following:

- Two enrollees’ certification or recertification of income forms were not signed by a supervisor.
- Five enrollees’ income was not annualized accurately as required by the program guide, of which one enrollee would not have been eligible for the program had the income been calculated properly.

Context: The program allows enrollees to provide a wide array of documents supporting income, which can include payments received by the enrollee on a weekly, bi-weekly, monthly or other basis. Because of the varying acceptable forms of documentation, program staff must annualize income for each enrollee. An example of a miscalculation noted above was that weekly income was annualized by multiplying by four weeks to total a month, then annualized by multiplying that amount by twelve months, when the program guide requires weekly income to be multiplied by fifty-two weeks for a precise calculation. Another example of a miscalculation noted above was when the enrollee provided multiple paystubs, the paystubs were not averaged as required by the program guide before being annualized. Instead, they were totaled then used to annualize income.

Rocky Mountain Human Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

C. Findings and Questioned Costs-Major Federal Award Programs Audit, Continued

2018-003 Eligibility – Significant Deficiency in Internal Control over Compliance, Continued

Cause: Program staff did not consistently follow program guidelines when annualizing and averaging income. Furthermore, the control of having a supervisor review and approve certifications and recertifications of income failed to detect these errors.

Effect: One enrollee whose income was not annualized properly would not have been eligible for the program had the income been calculated accurately. This enrollee was the beneficiary of \$1,295 in total assistance during the period tested which is considered to be the total known questioned costs.

Recommendation: We recommend management provide additional training to all program intake staff and their supervisors on how to properly calculate income on an annualized basis, including tools that can assist in accurate calculations. We further recommend supervisors recalculate income determination for each participant during their review process and complete signatures timely as required under the grant program.

Views of Responsible Officials and Planned Corrective Actions: RMHS will provide training to all program staff regarding accurate calculation of annualized income, will modify forms to facilitate accurate calculation of annualized income, and will implement procedures to require a Supervisor signature verifying independent calculation of annualized income.

**Rocky Mountain Human Services
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

None.

**Corrective Action Plan
Audited Financial Statements Findings
Year Ended June 30, 2018**

Findings – Financial Statement Audit

Finding 2018-001: Revenue Recognition and Month-End Close – Significant Deficiency

Criteria and Condition: The accounting records should be a reflection of the activity in the billing system, and the accounting team should have procedures in place to ensure a timely and accurate month-end closing process for all accounts. During the audit, we had difficulty obtaining supporting documentation from the billing system for certain service receivables, contractual adjustments, the allowance for doubtful accounts, and client billing revenue recorded in the accounting system. At the start of the audit, some non-revenue accounts had not been reconciled to third party documents during the year.

Context: RMHS underwent a system conversion of their billing software in Spring 2017 to ensure RMHS was in compliance with hierarchy billing required by one of their major funders. RMHS has been gaining an understanding of how the new system reports activity when one insurer denies a claim that is then submitted to another insurer, including how to finalize a claim in the system once paid.

Cause: RMHS discovered limitations in the billing system during the first year of implementation, and the accounting department did not gain a full understanding of the parameters surrounding the reports they were relying on. Due to personnel changes at RMHS, training on the month-end close process has not been prioritized.

Effect: Several journal entries were made during the audit to ensure proper classification of all accounts in the financial statements. One audit adjustment was made to write-off an uncollectable receivable from the prior year. Because billing revenue was recorded in the accounting records based solely on the initial insurer, reclassifications were made during the audit based on funding source changes that occurred after initial billing. The accounts receivable aging report was not regularly reviewed for timely paybacks and write-offs, thus management has assessed an allowance for doubtful accounts that will cover any write-offs that occur as the billing department cleans up and adjusts old items. Non-revenue accounts were not reconciled against outside documentation, thus journal entries were made to true-up these accounts.

Recommendation: We recommend the accounting department develop a portfolio of reports from the new billing system to be used in the month-end reconciliation process for all client billing revenue and receivable accounts. While developing these reports, we recommend the accounting department work closely with the billing department to ensure reports are designed to include all relevant information needed for the month-end close process and to ensure accounting staff have a full understanding of the controls surrounding the billing software and its reports. We further recommend

management expand the abilities of accounting staff and rebalance tasks amongst the department. We recommend the accounting department also update their accounting policies and procedures to include these changes.

Views of Responsible Officials and Planned Corrective Actions: Financial and Revenue Cycle management are developing new procedures and reports to improve information available for the monthly close. The cash receipts report, revenue, and accounts receivable reports from the billing department will be reconciled monthly to the accounting system. The billing department aged accounts receivable report will be utilized to record the allowance for doubtful account. The finance department policies and procedures will be updated, and the finance staff allocation to the monthly close process will be reviewed.

Name of Contact Person: John Wetherington

Proposed Completion Date: December 31, 2018

Findings and Questioned Costs – Major Federal Award Programs Audit

Federal Agency: Department of Veterans Affairs

Federal Program and CFDA Number: VA Supportive Services for Veteran Families, 64.033

Identification Number: C15-CO-504A, 12-ZZ-020, 18-ZZ-020

Grant Period: October 1, 2016 – September 30, 2017 and October 1, 2017 – September 30, 2018

Finding 2018-002: Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: The VA Supportive Services for Veteran Families program guide states enrollees in the program must exit the program within three months of entering or must be recertified every three months for continued participation in the program. During our testing of forty enrollees, we noted the following:

- One enrollee's recertification was completed three weeks after the required three month deadline.
- One enrollee was exited two weeks after the required three month deadline.

Cause: The control used for tracking deadlines did not function properly because the date used to initiate the tracking function for each enrollee was not consistently used amongst program staff.

Effect: Although this finding did not result in any questioned costs, enrollees were not recertified or exited timely indicating there may be administrative program requirements that are not being met.

Recommendation: All program staff should be trained on which date the grant program requires to be used as the start of the certification period so that the three month timeline is properly and consistently tracked for all enrollees.

Views of Responsible Officials and Planned Corrective Actions: RMHS has taken the following steps to eliminate future delays in exiting or recertifying enrollees:

1. Revised recertification of eligibility procedure to include expectations for timely recertifications.
2. Revised client deadline tracking procedures, including a client tracking system that automatically calculates 90-day deadlines; color-coding to green, yellow and red as deadlines approach; and monthly review of upcoming recertifications with all veteran support staff.
3. Completed all outstanding recertifications by 9/28/18 to coincide with the end of the grant year.
4. Revised Case Assignment document to include dates of 75 and 90 day deadlines, with intake and support staff initialing document to acknowledge deadlines.
5. Trained staff on revised procedures.

Name of Contact Person: *Ford Allison*

Proposed Completion Date: *November 15, 2018*

Finding 2018-003: Eligibility – Significant Deficiency in Internal Control over Compliance

Criteria and Condition: Enrollees in the program must meet “Very Low-Income” requirements which is defined by the program as annual income less than 50% of area median income. Documentation supporting current income must be annualized per procedures prescribed by the VA Supportive Services for Veteran Families program guide. Income verification is required during initial verification and during subsequent recertification. Certificates of eligibility must be signed by the program staff completing the certification or recertification as well as their supervisor. During our testing of forty enrollees, we noted the following:

- Two enrollees’ certification or recertification of income forms were not signed by a supervisor.
- Five enrollees’ income was not annualized accurately as required by the program guide, of which one enrollee would not have been eligible for the program had the income been calculated properly.

Context: The program allows enrollees to provide a wide array of documents supporting income, which can include payments received by the enrollee on a weekly, bi-weekly, monthly or other basis. Because of the varying acceptable forms of documentation, program staff must annualize income for each enrollee. An example of a miscalculation noted above was that weekly income was annualized by multiplying by four weeks to total a month, then annualized by multiplying that amount by twelve months, when the program guide requires weekly income to be multiplied by fifty-two weeks for a precise calculation. Another example of a miscalculation noted above was when the enrollee provided multiple paystubs, the paystubs were not averaged as required by the program guide before being annualized. Instead, they were totaled then used to annualize income.

Cause: Program staff did not consistently follow program guidelines when annualizing and averaging income. Furthermore, the control of having a supervisor review and approve certifications and recertifications of income failed to detect these errors.

Effect: One enrollee whose income was not annualized properly would not have been eligible for the program had the income been calculated accurately. This enrollee was the beneficiary of \$1,295 in total assistance during the period tested which is considered to be the total known questioned costs.

Recommendation: We recommend management provide additional training to all program in-take staff and their supervisors on how to properly calculate income on an annualized basis, including tools that can assist in accurate calculations. We further recommend supervisors recalculate income determination for each participant during their review process and complete signatures timely as required under the grant program.

Views of Responsible Officials and Planned Corrective Actions: RMHS has taken several steps to ensure correct income annualization and to ensure enrollees' income certification and recertification forms are signed by a supervisor.

1. Modified Income Eligibility Calculation Worksheet to a dropdown format to provide for accurate annualization of weekly, bi-weekly, semi-monthly and monthly income with built-in formulas for the calculation per the SSVF guidelines. The Intake Coordinator has the ability to override the annualization function in the case of a unique period.
2. Modified Income Eligibility Calculation Worksheet to require a Supervisor signature verifying accurate calculation of income.
3. Trained eligibility staff on revised procedure and form.

Name of Contact Person: *Ford Allison*

Proposed Completion Date: *November 15, 2018*