Summary of Significant Audit Findings for Local Mental Health Authorities for Fiscal Year 2017

As Required By

Texas Health and Safety Code,

Section 534.068 (f)

Health and Human Services

December 2018

TEXAS
Health and Human Services

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Executive Summary

The *Summary of Significant Audit Findings for Mental Health and Mental Retardation Community Centers for Fiscal Year 2017* is submitted in compliance with Texas Health and Safety Code, Section 534.068(f).

Community mental health and mental retardation centers, now referred to as local mental health authorities (LMHAs), expending $750,000 or more in federal and state awards must have a single audit conducted in accordance with 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements, or the *Uniform Grant Management Standards* (UGMS).

Single audits are submitted to the Health and Human Services (HHS), which is responsible for resolution of any findings issues and reporting to the Governor, Legislative Budget Board, and Legislative Audit Committee.

This report summarizes the independent auditor's findings of 39 LMHAs and their responses for fiscal year 2017.

1. Introduction

Section 534.068(f) requires HHS to submit a report annually to the Governor, Legislative Budget Board, and Legislative Audit Committee. The report must include a summary of the significant findings identified during a review of fiscal audit activities. Audits are conducted and submitted to HHS in compliance with Texas Health and Safety Code, Section 534.068(a).

2. Background

This report summarizes findings from the review of independent financial and compliance audits, as described by the Office of Management and Budget Circular A-133 and the State of Texas Single Audit Circular.

Also noted are fiscal year 2016 findings, questioned costs, and corrective plans. In addition, follow up on prior year findings and any relevant comments, as outlined in the auditor’s management letter, are included. All findings, comments and corrective actions are reproduced verbatim from the independent audit reports and are not modified by HHS.

3. Summary of Significant Findings

3.1 Abilene Regional MHMR dba Betty Hardwick Center

City: Abilene

Counties Served: Callahan, Jones, Shackelford, Stephens, and Taylor

Type of Report on Financial Statement: Unmodified[1]

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

<u>Finding 2017-A – Financial Reporting</u>

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The Center does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the Center's recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the Center's financial statements.

Cause of Condition: The Center does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles.

[1] An unmodified or unqualified opinion states that the financial statements present a fair and accurate picture of the company and comply with generally accepted accounting principles.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Center personnel. The need for the audit adjustments indicates that the Center's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the Center prepares budgetary and other financial reports for Board review on a routine basis, similar to most governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Management's Response: Management agrees with the noted finding. Management weighed the costs and benefits of preparing its own financial statements, including proposing the adjusting journal entries that would be necessary, and have decided to continue to outsource this non-audit service to its independent auditor.

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan:

<u>Finding 2017-A</u>

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepared the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

3.2 Anderson-Cherokee Community Enrichment Services dba ACCESS

City: Jacksonville

Counties Served: Anderson and Cherokee

Type of Report on Financial Statement: Unqualified

Type of Report on Compliance: Unqualified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.3 Andrews Center

City: Tyler

Counties Served: Henderson, Rains, Smith, Van Zandt, and Wood

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-001 – Material Weakness Related to Internal Controls over Financial Reporting

Criteria: The Center is responsible for maintaining adequate internal controls over financial reporting.

Condition: The Center's general ledger software is outdated and is only supported by a limited number of internal information technology staff.

In addition, the Center's bank reconciliation module within the general ledger software cannot be utilized, and therefore the Center is required to reconcile the bank accounts through a separate system that does not integrate with the general ledger. These conditions pose a significant risk to internal controls over financial reporting.

Cause of Condition: In prior years, the Center had multiple computer programmers on staff to provide support for the general ledger software. Over time the Center has reduced this staff and no longer has adequate staff to support this software.

Effect: Utilizing an outdated general ledger system poses undue risk to the Center for loss of financial data and improper financial reporting.

Recommendation: We recommend that management implement procedures to update its general ledger software to a system that is supported to mitigate the risks over financial reporting.

Management's Response: Andrews Center ("Center") has entered into a Software as a Service Agreement with Tyler Technologies, Inc. ("Tyler Tech") on July 7, 2017, for seven years. Tyler Tech will provide the following software and services:

- Financial: Accounting/General Ledger/ Accounts Payable, Capital Assets, Cash Management, and Purchasing
- Human Capital Management: Human Resources and Talent Management, Payroll, and Recruiting
- Revenue: Accounts Receivable and General Billing
- Productivity: eProcurement and Analytics and Reporting (SaaS)

<u>Finding 2017-002 – Material Weakness Related to Internal Controls over Financial Reporting</u>

Criteria: The Center is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: During our audit procedures, we noted the Center had reconciled all bank accounts at year-end in accordance with the prior year recommendation.

However, the Center does not have procedures in place to perform a detailed review of accounts receivable and the related allowance for uncollectible accounts to assure that the net book value of receivables are reported at their net realizable amounts in accordance with generally accepted accounting principles. The Center does not reconcile accounts receivable aging reports to the general ledger on a periodic basis.

Cause of Condition: The Center has no formal procedures in place to analyze and review accounts receivable and the related allowance for doubtful accounts on a periodic basis. The current general ledger system does not provide management with easily accessible reports of account collections by service date, in order to perform a detailed analysis of accounts receivable.

Effect: Without proper procedures in place to review and reconcile accounts receivable and the related allowance the Center has a risk that the estimate of the net realizable value of accounts receivable will be not presented in accordance with generally accepted accounting principles.

Recommendation: We recommend that management implement procedures to review accounts receivable and the related allowance for uncollectible accounts on a periodic basis and record adjustments as necessary to reflect these areas in accordance with generally accepted accounting principles. We recommend management maintain a detailed subsidiary accounts receivable aging report that reconciles to the general ledger.

Management's Response: The Center implemented a new electronic health record software on September 1, 2017, which will enable the Center to properly analyze and review accounts receivable and the related allowance for uncollectible accounts on a monthly basis and record adjustments as necessary to reflect these areas in accordance with generally accepted accounting principles. In the past, the AS400 software was unable to produce accurate reports for accounts receivable as the system recorded insurance billings on a cash basis instead of an accrual basis.

<u>Finding 2017-003 – Material Weakness Related to Internal Controls over Financial Reporting</u>

Criteria: Accounts receivable balances should represent current collectible accounts receivable.

Condition: Client accounts receivable balances included old credit balances on the general ledger.

Cause of Condition: Charges and payments are not being properly applied and/or refunded to individual client accounts receivable accounts.

Effect: Potential understatement on the financial statements of accounts receivable and accounts payable.

Recommendation: The Center should research and determine the appropriate disposition of old client credit balances.

Management's Response: The Center implemented a new electronic health record software on September 1, 2017, which will enable the Center to accurately maintain client accounts receivable accounts. In the past, the AS400 software was unable to produce accurate reports for client accounts receivable. The billing staff is in process of researching the old credit balances, but due to the volume, it could take approximately fifteen months due to implementation of new software.

<u>Finding 2017-004 – Formal Policies and Procedures for Monitoring Subrecipients</u>

Criteria: Management is responsible for adopting formal policies and procedures for monitoring subrecipients of grant awards.

Condition: The Center has not established formal policies and procedures for monitoring subrecipients of substance abuse grant awards.

Cause of Condition: The subrecipient grant award is relatively new to the Center, therefore formal policies and procedures related to monitoring have not been established.

Effect: The Center is not in full compliance with the Substance Abuse grant contract requirements.

Recommendation: We recommend the Center establish formal policies and procedures for monitoring subrecipients of grant awards and conduct both financial and programmatic performance monitoring of these subrecipients for each grant award.

Management's Response: The Center plans to establish formal policies and procedures for monitoring subrecipients of the Contract ID# 2016-048240-003 Substance Abuse/Opioid State Targeted Response by the end of the fiscal year 2018 second quarter.

<u>Finding 2017-005 – Physical Inventory of Assets</u>

Criteria: UGMS, Section III, Subpart C.32.d.2 states that a physical inventory of property must be taken and the results reconciled with the property records at least once every two years.

Condition: The Center has not conducted a complete physical inventory of all assets in the past two years.

Cause of Condition: The Center does not have adequate procedures in place that assure that a complete physical inventory of fixed assets is conducted every two years and the results of that inventory are reconciled to the detailed fixed asset records.

Effect: Failure to conduct a complete physical inventory of Center assets in a timely manner and reconcile the results to fixed asset records maintained by the Center results in noncompliance with UGMS.

Recommendation: The Center should conduct a complete physical inventory of its fixed assets and reconcile the results to the fixed asset records maintained by the Center in accordance with UGMS.

Management's Response: The Center will complete a physical inventory of Center assets and reconcile to the detailed fixed asset records by the end of the fiscal year 2018 third quarter.

Follow-up on Prior Year Findings:

<u>Finding 2016-001 – Reconciliation of Account Balances</u>

The status of this prior year finding is reported at Item 2017-002.

<u>Finding 2016-002 – Credit Balances in Accounts Receivable</u>

The status of this prior year finding is reported at Item 2017-003.

Finding 2016-003 – Accounts Receivable Accrual

During our audit procedures, we noted the Center did not record accounts receivable accruals for the 1115 waiver program due to the program milestones being met and reported on after the fiscal year-end. Therefore, we consider this prior year finding to be resolved.

Finding 2016-004 – Underinsured Bank Account

During our audit procedures, we noted the Center's deposits were fully insured or collateralized with securities held by the Center, its agent, or by pledging financial institutions trust department or agent in the name of the Center. Therefore, we consider this prior year finding to be resolved.

Finding 2016-005 – Improperly Reported SEFSA

During our audit procedures, we noted the Center had properly identified federal and state awards required to be reported on the Schedule of Federal and State Awards. Therefore, we consider this prior year finding to be resolved.

Independent Auditor’s Management Letter:

Current year comments:

Recommended Days of Operation

During 2017, overall fund equity in the general fund decreased by $39,768. At the end of the year, *overall* general fund balance was $1,626,926 and *unassigned* general fund balance was $1,501,990. These two amounts represent 7.0 percent and 6.5 percent, respectively of the 2017 total expenditures in the general fund. These percentages translate into 26 and 24 “days of operation” available in general fund balance at the end of the year.

We recommend that community centers maintain 60 “days of operation” in general fund balance. In addition, fund balance will be an important tool for community centers as they begin to operate in more of a managed care environment and experience the swings in cash flows that occur as a result of 1115 waiver programs.

We recommend that the Center budget and plan to achieve surpluses in order to build fund balance to the recommended level.

Corrective Action Plan: See Management's Responses for Findings 2017-001, 2017-002, 2017-003, 2017-004, and 2017-005

3.4 Austin-Travis County MHMR dba Austin Travis County Integral Care

City: Austin

Counties Served: Travis

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.5 Bluebonnet Trails Community Services

City: Round Rock

Counties Served: Bastrop, Burnet, Caldwell, Fayette, Gonzales, Guadalupe, Lee, and Williamson

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

Collateral Pledge for Bank Deposits

We selected four dates to test the collateral pledge used to collateralize bank deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. On two of the four dates, the collateral pledge was insufficient to cover uninsured deposits at JP Morgan Chase Bank. These collateral shortages were corrected within a few days. The Center should review this procedure with the bank to assure that deposits remain fully collateralized.

Test of Center Payroll Procedures

We selected 40 payroll transactions for compliance with Center procedures. Center procedures provide that time sheets be approved by the employee's supervisor. Of the 40 payroll transactions selected for testing, 100 percent were documented by a time and attendance record as required by grant management standards. However, of the 40 transactions selected, six time sheets did not reflect approval by the employee's supervisor as set forth in the Center's procedures. Discussions with Center staff indicated that this issue was corrected by the implementation of the new general ledger accounting system at the end of the year. The new payroll system requires approval prior to the payroll disbursement. We recommend that the Center review procedures in order to comply with internal policies related to payroll disbursements.

Corrective Action Plan: No findings/comments requiring corrective action.

3.6 Border Region Behavioral Health Center

City: Laredo

Counties Served: Jim Hogg, Starr, Webb, and Zapata

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Findings Required to be Reported in Accordance with *Government Auditing Standards*

Finding 2017-A – Procurement

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The Center does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the Center's recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the Center's financial statements.

Cause of Condition: The Center does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Center personnel. The need for the audit adjustments indicates that the Center's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the Center prepares budgetary and other financial reports for Board review on a routine basis, similar to most governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Management's Response: Management agrees with the noted finding. Management weighed the costs and benefits of preparing its own financial statements, including proposing the adjusting journal entries that would be necessary, and have decided to continue to outsource this non-audit service to its independent auditor.

Findings and Questioned Costs – Major Federal and State Award Programs

Finding 2017-001 – Procurement

Criteria: 2 CFR 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, also referred to as the Uniform Guidance (UG), requires nonfederal entities that expend federal funds to adopt procurement policies that are in compliance with the UG. Entities that have not adopted these policies yet may elect to defer implementation of the procurement policy requirement as long as the decision to elect to defer implementation is documented.

Condition: The Center has not updated their procurement policy to be in compliance with the Uniform Guidance. The Center has elected to defer implementation of the procurement policy requirements but this decision to defer implementation was not documented. Thus, the Center does not have a control process to ensure compliance with the procurement compliance requirement of the Uniform Guidance.

Cause of Condition: The Center was not aware of the requirement to update their procurement policy to be in compliance with the Uniform Guidance. The Center was also not aware that they could defer implementation of this requirement and thus they did not document a decision to defer implementation.

Effect: The effect of not adopting the procurement requirements of the Uniform Guidance could result in questioned costs since the cost would not be allowable unless certain written policies were adopted. The effect of not documenting the decision to defer implementation of the procurement requirements could also result in certain federal costs not being allowable.

Recommendation: We recommend that the Center document their decision to defer implementation of the procurement requirements of the Uniform Guidance. Further, we recommend that the Center begin working on updating their procurement policy to be in compliance with the Uniform Guidance.

Management's Response: Management agrees with the noted finding.

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

Compliance with State Laws

During our audit, we became aware of matters that are opportunities for strengthening compliance with state laws. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. This letter does not affect our report dated January 29, 2018, on the financial statements of the Center.

We will review the status of these comments during our next audit engagement.

Corrective Action Plan: No findings/comments requiring corrective action

3.7 Burke Center

City: Lufkin

Counties Served: Angelina, Houston, Jasper, Nacogdoches, Newton, Polk, Sabine, San Augustine, San Jacinto, Shelby, Trinity, and Tyler

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.8 Camino Real Community Services

City: Lytle

Counties Served: Atascosa, Dimmit, Frio, La Salle, Karnes, Maverick, McMullen, Wilson, and Zavala

Type of Report on Financial Statement: Unqualified

Type of Report on Compliance: Unqualified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.9 Center for Health Care Services

City: San Antonio

Counties Served: Bexar

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings:

<u>Finding 2015-001 – Procurement</u>

2015, 2016, and 2017 Type of Finding: Noncompliance Reported in Accordance with Government Auditing Standards

Criteria: State law requires that purchases and/or contracts for goods and (certain) services, in excess of $150,000, to be procured via competitive procurement procedures (UGMS); and, that the procurement decisions for professional and consulting services, to be based on the vendor's demonstrated competence, knowledge, and qualifications; and, on the reasonableness of the proposed fee for the service (Texas Government Code, Section 2254.027).

The Center's local procurement policy requires a competitive bid or proposal solicitation process for the purchase of goods and services that are expected to exceed $25,000, except for professional services, which should be based on the vendor's demonstrated competence and qualifications for the type of services to be performed, and fair and reasonable prices.

2015 Finding: The Center considered 4 vendors to be exempt from competitive bidding since they were procured to provide professional services; and, in another instance a vendor was paid with no indication of competitive procurement. Additionally, in 5 instances, documentation was not available to demonstrate that the Center verified that the vendors were not suspended or debarred.

2016 Status: Our testing of procurement for 10 vendors denoted 2 instances where vendors were paid in excess of $300,000 and $140,000 for cleaning services and professional services, respectively, with no indication of competitive procurement or Board approval.

In addition to the above 2 vendors, Board approval was also not obtained for an agreement with a nonprofit organization for Outreach, Screening, Assessment, and Referral services provided.

2017 Status: Our testing of procurement for 10 vendors in the current year, denoted an instance where a vendor was paid in excess of $100,000 for language translation services, with no indication that competitive procurement was performed. In addition, in 2014 the Center entered into an indefinite term contract for crisis and respite residential services. Payments to this vendor exceeded $100,000 during the year ended August 31, 2017. Indefinite term contracts are generally not used by the Center since they evaluate contracts on a periodic basis to ensure they will continue to receive the best services at the best competitive prices.

Questioned Costs: None

Cause: Unknown

Recommendation: We recommend that the Center implement procedures to strengthen the controls in place over procurement to ensure compliance with local, state, and federal procurement requirements.

Views of Responsible Official(s) and Planned Corrective Action:

- In reference to the contract where competitive procurement was not performed, the Center plans to release an Request for Proposals (RFP) in fiscal year 2018 for these language interpretation services. Moving forward, in fiscal year 2018, all contracts will have identified owners to monitor spending; and, the contracts department will begin providing backup/compliance monitoring and use the capabilities of the MUNIS system to warn staff when total vendor payments are approaching significant milestones.

- In reference to the indefinite term contract, an RFP will be released in fiscal year 2018 to align with procurement best practices. Moving forward, expense contracts will be limited to a defined term of years to ensure periodic best value procurement.

Anticipated Completion Date: August 31, 2018

Finding 2016-001 – Inventory

2016 Type of Finding: Material Weakness in Internal Control over Financial Reporting and Noncompliance Required to be Reported in Accordance with Government Auditing Standards

2017 Type of Finding: Internal Control Matter

Criteria: On September 16, 2015, the Center, through its component unit, the National Center, entered into an agreement to receive donated prescription drugs, at no cost to the Center.

2016 Finding: The Center did not comply with the agreement or exercise proper controls over financial reporting for the donated prescription drugs, as follows:

- The agreement was not reviewed to identify the proper accounting treatment for the donated prescription drugs received.

- There was no system in place to ensure that the donated prescription drugs were dispensed only to eligible individuals.

- Inventory management policies and procedures were not established to track the donated prescription drugs received, dispensed, or on hand.

- Shipments of donated prescription drugs may have been requested even though inventory was on hand, which may have resulted in an excess amount of expired products.

2017 Status: Our follow-up in the current year indicated that the Center has taken some corrective action to address this issue; therefore, the finding, as related to the ongoing implementation of inventory management procedures and internal controls over the donated prescription drugs is reported in a separate letter to the Center as an internal control matter.

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.10 Central Texas MHMR Center dba Center for Life Resources

City: Brownwood

Counties Served: Brown, Coleman, Comanche, Eastland, McCulloch, Mills, and San Saba

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.11 Central Counties Center for MHMR Services

City: Temple

Counties Served: Bell, Coryell, Hamilton, Lampasas, and Milam

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

Current year comments:

Accrued Revenues

GAAP for the General Fund require that revenues be recognized on the modified accrual basis. Presently the Center's accounting policy is to record revenues on the cash basis throughout eleven months of the year and then accrue revenues at the end of the fiscal year in order to convert to the modified accrual basis of accounting. This policy understates revenues throughout the course of the year, and in tum, revenues in the last month of the year are overstated in order to convert from the cash basis to the accrual basis. The cash method does not provide financial information during the year that reasonably reflects the operating results of the Center.

Accordingly, management and the Board do not have the best financial information available for decision-making. In most cases, reasonable estimates of accrued revenues can be developed based on the number of services provided by service type: normal collection percentages of billed revenues by service type, and other knowledge of amounts that have been billed for certain services. Reasonable estimates can be made using these and similar methods in order to provide financial information on a monthly basis that is more reliable for decision-making.

Reasonable estimates made at the end of each month can be reversed following the month-end close allowing cash collections of revenues to continue to be recorded in a manner consistent with the present cash method. The use of reasonable estimated revenue accruals at the end of each month would provide more accurate financial information, and yet would not require the same level of detail utilized by Center accounting staff at year-end. We recommend that the Center implement procedures that will record revenues on a monthly basis using GAAP methods.

Corrective Action Plan: No findings/comments requiring corrective action

3.12 Central Plains Center

City: Plainview

Counties Served: Bailey, Briscoe, Castro, Floyd, Hale, Lamb, Motley, Parmer, and Swisher

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.13 Coastal Plains Community Center

City: Portland

Counties Served: Aransas, Bee, Brooks, Duval, Jim Wells, Kenedy, Kleberg, Live Oak, and San Patricio

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.14 Denton County MHMR

City: Denton

Counties Served: Denton

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.15 El Paso MHMR dba Emergence Health Network

City: El Paso

Counties Served: El Paso

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.16 Gulf Bend Center

City: Victoria

Counties Served: Calhoun, DeWitt, Goliad, Jackson, Lavaca, Refugio, and Victoria

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.17 Gulf Coast Center

City: Galveston

Counties Served: Brazoria, and Galveston

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.18 Harris Center for Mental Health and IDD

City: Houston

Counties Served: Harris

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.19 Heart of Texas Region MHMR

City: Waco

Counties Served: Bosque, Falls, Freestone, Hill, Limestone, and McLennan

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.20 Helen Farabee Centers

City: Wichita Falls

Counties Served: Archer, Baylor, Childress, Clay, Cottle, Dickens, Foard, Hardeman, Haskell, Jack, King, Knox, Montague, Stonewall, Throckmorton, Wichita, Wilbarger, Wise, and Young

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.21 Hill Country Community MHMR Center dba Hill Country Mental Health and Developmental Disabilities Centers

City: Kerrville

Counties Served: Bandera, Blanco, Comal, Edwards, Gillespie, Hays, Kendall, Kerr, Kimble, Kinney, Llano, Mason, Medina, Menard, Real, Schleicher, Sutton, Uvalde, and Val Verde

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-A – Financial Reporting

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The Center does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the Center's recorded account balances, which if not recorded, would have resulted in a material misstatement of the Center's financial statements.

Cause of Condition: The Center does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Center personnel. The need for the audit adjustments indicates that the Center's interim financial information is not materially correct, which may affect management decisions made during the course of the year.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the Center prepares budgetary and other financial reports for Board review on a routine basis, similar to most governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Management’s Response: Management agrees with the noted finding. Management weighed the costs and benefits of preparing its own financial statements, including proposing the adjusting journal entries that would be necessary, and found it beneficial to outsource this service to its independent auditor.

Follow-up on Prior Year Findings: None

Independent Auditor’s Management Letter:

We consider the following deficiencies in internal control to be material weaknesses:

Internal Control over the Preparation of Financial Statements

As is common in governmental entities, the Center currently does not prepare GAAP-basis financial statements. That is, the Center does not prepare financial statements, complete with footnote disclosures, in accordance with GAAP, such as those contained in the annual audit report. Furthermore, the Center has not established internal controls over the preparation or review of financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

To put this into perspective, most governmental entities’ financial resources and software are designed for reporting their finances on a budgetary basis, which can differ significantly from GAAP basis. Preparing financial statements on a GAAP basis can require an extensive knowledge of ever-changing professional standards (pronouncements issued by the Governmental Accounting Standards Board). Many users of the Center’s internally-generated financial statements (such as Board members, grantor agencies and Center management) request or need information on a budgetary basis to make short-term budgeting decisions.

To present the financial statements in accordance with generally accepted accounting principles, we propose various journal entries to convert your financial statements from budget basis to modified accrual basis of accounting for the fund financial statements as required by GAAP. We also propose various journal entries to convert the modified accrual basis financial statements to the government-wide financial statements which is presented on the full accrual basis of accounting.

Material Audit Adjustments

During the course of our engagement, we proposed several material audit adjustments to the Center’s recorded account balances, which if not recorded, would have resulted in a material misstatement of the Center’s financial statements. The need for these adjustments indicates that the Center’s interim financial information is not materially correct, which may affect management decisions made during the course of the year.

The preparation of adjusting and reclassification journal entries as part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as if prepared by management personnel.

Authoritative guidance requires that we report these control deficiencies. The standard does not provide exceptions to reporting deficiencies that are adequately mitigated with non-audit services rendered by the auditor (such as the auditor providing assistance with the preparation of GAAP-basis financial statements) or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of the standard, to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue GAAP-basis financial statements free of material misstatement.

Communication of the control deficiencies above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor. In other words, if an organization is not able to issue, without the auditors' involvement, complete financial statements with notes, in accordance with generally accepted accounting principles, and free of material misstatement, that inability is a symptom of a material weakness deficiency in internal control.

As mentioned above, whether or not it would be cost effective to cure a control deficiency is not a factor in applying the standard's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all the deficiencies an auditor reports under the standard. Accordingly, you may decide that curing the deficiency regarding financial statement preparation described above would not be cost effective and take no action.

Corrective Action Plan: No findings/comments requiring corrective action

3.22 Lakes Regional Community Center

City: Terrell

Counties Served: Camp, Delta, Franklin, Hopkins, Lamar, Morris, and Titus

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor’s Management Letter:

Current year comments:

Recommended Days of Operation (Repeat from prior year)

During 2017, overall fund equity in the general fund decreased by $127,338. At the end of the year, overall fund balance was $3,711,372 and unassigned fund balance was $3,640,299. These two amounts represent 10.1 percent and 9.9 percent, respectively of the 2017 total expenditures (excluding capital outlay of $547,092) in the general fund. These percentages translate into 37 and 36 "days of operation" available in fund balance at the end of the year.

We recommend that community centers maintain 60 "days of operation" in fund balance. In addition, fund balance will be an important tool for community centers as they begin to operate in more of a managed care environment and experience the swings in cash flows that occur as a result of 1115 waiver programs.

We recommend that the Center budget and plan to achieve surpluses in order to build fund balance to the recommended level.

Corrective Action Plan: No findings/comments requiring corrective action

3.23 Collin County MHMR Center dba LifePath Systems

City: McKinney

Counties Served: Collin

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Item 2017-001 – Material Weakness Related to Internal Controls over Financial Reporting

Criteria: LifePath is responsible for maintaining proper internal controls over accounts payable.

Condition: LifePath's internal control system allowed the Center to overpay its insurance vendor MetLife over the course of the fiscal year.

Cause: LifePath's internal controls over accounts payable during the fiscal year were not effective to conduct a proper review of the vendor invoice to identify the increasing credit balance prior to release of payment to the vendor.

Effect: LifePath was required to contact the vendor and request a refund of the overpayment. This significant overpayment reduced cash on hand for current operating expenditures during the fiscal year.

Recommendation: LifePath should implement procedures to properly review accounts payable invoices to assure any vendor credits are taken into account prior to payment of the invoice.

Management's Response: Management agrees with this recommendation to strengthen this process. The responsibility for proper review was confused due different individuals reviewing the invoices for different purposes. The procedure describing level of authority and responsibility for approving invoices will be revised and staff will be trained on the new procedure.

Item 2017-002 – Material Weakness Related to Internal Controls over Financial Reporting

Criteria: LifePath is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: LifePath's financial statements did not present accounts receivable and unearned program revenue in accordance with generally accepted accounting principles. LifePath does not maintain detailed subsidiary ledgers for accounts receivable and unearned program revenue that are accurate and that reconcile to the financial statements.

Cause: LifePath had a significant amount of accounts receivable and unearned program revenue activity during the year that was not reviewed, reconciled, and adjusted to be presented in accordance with generally accepted accounting principles on a timely basis.

Effect: LifePath's accounts receivable and unearned program revenue accounts required audit adjustments at year-end in order to report these balances in accordance with generally accepted accounting principles. A detailed analysis of these accounts was required to reconcile them to the general ledger.

Recommendation: It is the responsibility of management to assure that financial statements are prepared in accordance with generally accepted accounting principles. We recommend that management implement procedures to review accounts receivable and unearned program revenue on a periodic basis and record adjustments as necessary to reflect these areas in accordance with generally accepted accounting principles. We recommend management maintain a detailed subsidiary ledger for accounts receivable and unearned program revenue that are accurate and reconcile to the general ledger.

Management's Response: Management agrees with this recommendation and will implement such procedures and an accurate, detailed subsidiary ledger.

Item 2017-003: Material Weakness Related to Internal Controls over Financial Reporting

Criteria: The Center is responsible for maintaining adequate internal controls over financial reporting.

Condition: LifePath's net results for the prior three fiscal years has not been closed out to fund balance and therefore the detailed trial balance in the general ledger system is not in balance and does not properly reflect fund balance accounts at year-end.

Cause: LifePath's general ledger accounting software is outdated and no longer supported by technical staff. LifePath's accounting staff cannot get any technical assistance from the software vendor to close out fund balance accounts.

Effect: LifePath's detailed general ledger is not in balance and does not properly reflect fund balance accounts. In addition, utilizing an outdated general ledger system poses undue risk to LifePath for loss of financial data and improper financial reporting.

Recommendation: We recommend that management implement procedures to update its general ledger software to a system that is supported to mitigate the risk over financial reporting.

Management's Response: Management agrees with this recommendation and will be reviewing financial software systems to make a recommendation to the Board for purchase.

Item 2017-004 – Significant Deficiency Related to Internal Controls over Financial Reporting

Criteria: LifePath is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: LifePath's financial statements did not present capital asset activity in accordance with generally accepted accounting principles.

Cause: LifePath had a significant amount of capital asset activity during the year that was not reviewed and adjusted to be presented in accordance with generally accepted accounting principles on a timely basis.

Effect: LifePath's capital asset activity required audit adjustments at year-end in order to report capital assets at net book value at year-end. Although the aggregate effect of these audit adjustments was not material to the financial statements a detailed analysis of capital asset activity was required in order to present the audited financial statements in accordance with generally accepted accounting principles.

Recommendation: It is the responsibility of management to assure that financial statements are prepared in accordance with generally accepted accounting principles. We recommend that management implement procedures to review capital asset activity on a periodic basis and record adjustments as necessary to reflect these areas in accordance with generally accepted accounting principles.

Management's Response: Management agrees and will work with a consultant to develop appropriate and effective procedures.

Item 2017-005 – Compliance with Early Childhood Intervention (ECI) Reporting

Criteria: The Texas Health and Human Services contract requires that all program expenditures and program income be reported cumulatively by source on quarterly and annual financial reports. The Contractor must disburse program income before requesting additional funds from the ECI contract.

Condition: LifePath's final HHSC - ECI form 269(a) report filed for fiscal year 2017 did not appropriately report program expenditures or program income collections.

Effect: LifePath was required to file a revised HHSC - ECI form 269(a) report in order to correctly report program expenditures and program income collections for the contract period.

Cause: This was a result of year-end adjustments that affected ECI program expenditures and program income collections not being posted to the general ledger in a timely manner.

Recommendation: LifePath should implement procedures to assure HHSC ECI reports accurately reflect all program expenditures and program income (maintenance of effort) collections and that reports are filed accurately for future contract periods.

Management's Response: Management agrees with this recommendation.

Item 2017-006 – Formal Policies and Procedures for Monitoring Subrecipients

Criteria: Management is responsible for adopting formal policies and procedures for monitoring subrecipients of grant awards and is required to monitor both financial and programmatic performance of subrecipients.

Condition: LifePath has not established formal policies and procedures for monitoring subrecipients of substance abuse grant awards.

Cause: LifePath substance abuse grant award contracts began in January 2017. These are the first subrecipient contracts LifePath has been awarded, therefore formal policies and procedures have not been established.

Effect: LifePath is not in compliance with the Substance Abuse grant contract requirements.

Recommendation: We recommend LifePath establish formal policies and procedures for monitoring subrecipients of grant awards and conduct both financial and programmatic performance monitoring of these subrecipients.

Management's Response: Management agrees and began work on this issue already. A position was created for auditing grant awards. That new position will work collaboratively with our Quality Assurance monitors to insure thorough monitoring of subrecipients.

Follow-up on Prior Year Findings:

The summary schedule of prior audit findings reports the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule also includes audit findings reported in the prior audit's summary schedule of prior auditing findings except audit findings listed as corrected in accordance with 2 Code of Federal Regulations (CFR) 200.511(b)(I), or no longer valid or not warranting further action in accordance with paragraph 2 CFR 200.511(b)(3).

<u>Item 2016-001 – Significant Deficiency Related to Internal Controls over Financial Reporting</u>

The status of this finding is reported at Item 2017-004 referenced above.

<u>Item 2016-002 – Identification of Expenditures of State Awards</u>

During our audit procedures, we found LifePath had properly identified all federal and state awards for the fiscal year to be presented in the Schedule of Federal and State Awards. Therefore, we consider this prior year finding to be resolved.

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: Corrective Action Plan not provided

3.24 MHMR Authority of Brazos Valley

City: Bryan

Counties Served: Brazos, Burleson, Grimes, Leon, Madison, Robertson, and Washington

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.25 MHMR of Nueces County dba Behavioral Health Center of Nueces County

City: Corpus Christi

Counties Served: Nueces

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.26 MHMR Services for the Concho Valley

City: San Angelo

Counties Served: Coke, Concho, Crockett, Irion, Reagan, Sterling, and Tom Green

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-A – Financial Reporting

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The Center does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the Center's recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the Center's financial statements.

Cause of Condition: The Center does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Center personnel. The need for the audit adjustments indicates that the Center's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the Center prepares budgetary and other financial reports for Board review on a routine basis, similar to most governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

Management's Response: Management agrees with the noted finding. Management weighed the costs and benefits of preparing its own financial statements, including proposing the adjusting journal entries that would be necessary, and have decided to continue to outsource this non-audit service to its independent auditor.

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

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

Corrective Action Plan: No findings/comments requiring corrective action

Finding 2017-A – Financial Reporting

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed and agreed with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

3.27 MHMR Services of Texoma dba Texoma Community Center

City: Sherman

Counties Served: Cooke, Fannin, and Grayson

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Item 2017-001 – Material Weakness Related to Internal Controls over Financial Reporting

Criteria: The Center is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: The Center does not have appropriate procedures in place to perform a detailed review of unearned program revenue to assure that the liability account is reconciled and reflects the appropriate balance in accordance with generally accepted accounting principles.

Cause of Condition: The Center has no formal procedures in place to analyze unearned program revenue accounts on a periodic basis and accurately reconcile the accounts to the general ledger.

Effect: Audit adjustments that were significant to the financial statements were required in order to reconcile unearned program revenue at year-end.

Recommendation: We recommend that management implement procedures to review and reconcile unearned program revenues on a periodic basis and record adjustments as necessary to reflect this liability in accordance with generally accepted accounting principles.

Management's Response: Texoma Community Center will implement procedures of reconciling all balance sheet accounts on a monthly basis including unearned revenue as well as prepaid expenses to assure that revenues as well as expenses are posted to the period they are earned or incurred.

Item 2017-002 – Material Weakness Related to Internal Controls over Financial Reporting

Criteria: The Center is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: The Center does not have appropriate procedures in place to assure all accounts receivable are recorded at year-end for billed grants and services related to the fiscal period and that accounts receivable are reported at their net realizable value in accordance with generally accepted accounting principles.

Cause: The Center has no formal procedures in place to analyze and review accounts receivable on a periodic basis to assure they are complete and are reflected at their net realizable value.

Effect: Audit adjustments that were significant to the financial statements were required in order to reflect accounts receivable at net realizable value.

Recommendation: We recommend that management implement procedures to review and reconcile accounts receivable on a periodic basis and record adjustments as necessary to reflect at their net realizable value in accordance with generally accepted accounting principles. Management should assure all accounts receivable are recorded for billed grants and services related to the fiscal period.

Management's Response: In a similar way that Texoma Community Center will address unearned revenue, we will implement procedures of reconciling all balance sheet accounts on a monthly basis including accounts receivable to assure that revenues are recognized in the period they are earned.

<u>Item 2017-003 – Material Weakness Related to Internal Controls over Financial Reporting</u>

Criteria: The Center is responsible for the preparation of financial statements that are fairly presented in accordance with generally accepted accounting principles.

Condition: The Center does not have appropriate procedures in place to perform a detailed review of the accrued payroll liabilities estimate to assure that it reflects the appropriate balance in accordance with generally accepted accounting principles.

Context: Audit adjustments in the amount of approximately $118,000 were required to increase the estimate of accrued payroll liabilities to the amount of $435,823 at year-end.

Cause: This was due to an error in the accrued payroll liabilities calculation at year-end which resulted in an understatement of the liabilities at year-end.

Effect: Audit adjustments that were significant to the financial statements were required in order to fairly state the estimate of accrued payroll liabilities at year-end.

Recommendation: We recommend that management implement procedures to review the estimate of accrued payroll liabilities on a periodic basis and record adjustments as necessary to fairly state these liabilities in accordance with generally accepted accounting principles.

Management's Response: Texoma Community Center is dedicated to insuring that expenses and revenues are posted to the appropriate period. TCC will implement a process for year end to have all year-end adjustments done prior to the audit team reviewing.

<u>Item 2017-004 – Physical Inventory of Assets</u>

Criteria: UGMS, Section III, Subpart C.32.d.2 states that a physical inventory of property must be taken and the results reconciled with the property records at least once every two years.

Condition: The Center has not conducted a complete physical inventory of all assets in the past two years.

Cause: The Center does not have adequate procedures in place that assure that a complete physical inventory of fixed assets is conducted every two years and the results of that inventory are reconciled to the detailed fixed asset records.

Effect: Failure to conduct a complete physical inventory of Center assets in a timely manner and reconcile the results to fixed asset records maintained by the Center results in noncompliance with UGMS.

Recommendation: The Center should conduct a complete physical inventory of its fixed assets and reconcile the results to the fixed asset records maintained by the Center in accordance with UGMS.

Management's Response: Texoma Community Center changed key personnel during this audit year. During a thorough investigation of this particular matter, the current chief financial officer (CFO) was told an inventory was done, but documentation of such inventory was unable to be located. The current CFO has been made aware of the performance contract requirement to have a physical inventory and has taken steps to ensure that one is completed during the current (fiscal year 2018) fiscal year.

Follow-up on Prior Year Findings:

The summary schedule of prior audit findings reports the status of all audit findings included in the prior audit's schedule of findings and questioned costs. The summary schedule also includes audit findings reported in the prior audit's summary schedule of prior auditing findings except audit findings listed as corrected in accordance with 2 CFR 200.511(b)(1), or no longer valid or not warranting further action in accordance with paragraph 2 CFR 200.511(b)(3).

No findings were noted in 2016 or 2015.

Independent Auditor's Management Letter:

Current year comments:

Recommended Days of Operation (Repeat from prior year)

During 2017, overall fund equity in the general fund increased by $234,735. At the end of the year, *overall* fund balance was $1,789,678 and *unassigned* fund balance was $1,174,065. These two amounts represent 13.0 percent and 8.5 percent, respectively of the 2017 total expenditures in the general fund. These percentages translate into 47 and 31 "days of operation" available in fund balance at the end of the year.

The internal service fund used by the Center to account for the partially self-insured medical benefits plan reported an increase in net position in the amount of $40,960. Following these results, net position in the internal service fund is negative in the amount of $612,738.

We recommend that community centers maintain 60 "days of operation" in fund balance. In addition, fund balance will be an important tool for community centers as they begin to operate in more of a managed care environment and experience the swings in cash flows that occur as a result of 1115 waiver programs.

We recommend that the Center budget and plan to achieve surpluses in order to build fund balance to the recommended level.

Corrective Action Plan: No findings/comments requiring corrective action

3.28 MHMR of Tarrant County

City: Fort Worth

Counties Served: Tarrant

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.29 North Texas Behavioral Health Authority

City: Dallas

Counties Served: Dallas, Ellis, Hunt, Kaufman, Navarro, and Rockwall

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-001 – Financial Statement Findings Balance sheet account reconciliations – material weakness

Criteria: North Texas Behavioral Health Authority (NTBHA) is responsible for presenting financial statements that are fairly stated in accordance with U.S. generally accepted accounting principles.

Condition: The operating bank account, accrued expenses, and due to/due from accounts were not properly reconciled at year end.

Cause: NTBHA experienced several issues with the implementation of new accounting software and changes to internal accounting processes, procedures and reporting. These issues resulted in significant delays in proper reconciliations of certain year-end balance sheets accounts.

Effect: Management update these reconciliations resulting in journal entries and delays to the original audit timeline. The effect of the entries decreased assets by $2,557,273, decreased liabilities by $2,419,396, and increased net income by $137,877.

Recommendation: We recommend that management follow their policy of reconciling and reviewing detailed accounts to the general ledger in a timely manner.

Management's Response: The accounting staff responsible for preparing the 2017 audit, experienced unanticipated delays due to the accounting and recordkeeping of the external certified public accountant (CPA). This CPA was responsible for the organization's accounting and financial reporting from September 1, 2016, through December 31, 2016. This CPA did not record the fiscal year 2016 audit adjusting entries in the accounting system for fiscal year 2016. Therefore, current accounting staff had to reconcile the beginning balances to the prior year audit report, trace the transactions to the underlying source documents provided by the external CPA during this timeframe, and assure that they were recorded correctly in the new accounting system.

In addition to these unanticipated accounting delays, staff also experienced significant problems with the accounting and financial reporting software system that had been implemented in January 2017. Upon review of the system in May 2017, it was determined that the current system was inadequately designed and implemented and would not support NTBHA and its growing business. A second accounting system had to be designed, implemented, and all transactions had to be recorded and entered into the correct accounts and accounting periods in the new system. Due to these circumstances, balance sheet reconciliations were unable to be prepared prior to the commencement of the 2017 audit.

The Finance Department has implemented a monthly reconciliation process and review of all balance sheet accounts and has ensured these reconciliations are completed monthly. These internal control processes reasonably ensure all reconciliations are complete as of year-end.

In addition, the CFO has hired additional qualified accounting personnel to assist with the increased growth. All staff have received training on the new accounting software.

Follow-up on Prior Year Findings:

<u>Finding 2016-001</u>

Criteria: NTBHA's recording and monitoring of accounts receivable and deferred revenue were not adequate during the year ended August 31, 2016.

Condition: Cash receipts and revenue transactions were routinely applied to the incorrect programs in these accounts, resulting in numerous reclassifying journal entries between accounts receivable, revenue and deferred revenue.

Cause: NTBHA needs to strengthen internal controls to ensure the accuracy of the financial statements in accordance with GAAP.

Current status: NTBHA has completed the corrective action plan required as a result of the prior year audit.

<u>Finding 2016-002</u>

Criteria: Filing of reports with the Texas Department of State Health Services was not performed timely during the year ended August 31, 2016.

Condition: One instance of a late filing of the Summary of Activities Report and three instances of late filings of the Financial Status Report.

Cause: NTBHA needs to strengthen internal controls to ensure the filing of compliance reports in a timely manner.

Current status: NTBHA has completed the corrective action plan required as a result of the prior year audit.

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan:

<u>Finding 2017-001 – Balance sheet account reconciliations - material weakness</u>

Corrective Action Plan: The Finance Department has implemented a monthly reconciliation process and review of all balance sheet accounts and has ensured these reconciliations are completed monthly. These internal control processes reasonably ensure all reconciliations are complete as of year-end. In addition, the CFO has hired additional qualified accounting personnel to assist with the increased growth. All staff have received training on the new accounting software.

3.30 Pecan Valley Centers for Behavioral and Developmental Healthcare

City: Granbury

Counties Served: Erath, Hood, Johnson, Palo Pinto, Parker, and Somervell

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.31 Permian Basin Community Centers for MHMR

City: Midland

Counties Served: Brewster, Culberson, Ector, Hudspeth, Jeff Davis, Midland, Pecos, and Presidio

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.32 Sabine Valley Regional MHMR Center dba Community Healthcore

City: Longview

Counties Served: Bowie, Cass, Gregg, Harrison, Marion, Panola, Red River, Rusk, and Upshur

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings:

Finding 2016-001 – Bank account was underinsured.

Criteria: The Center is responsible for maintaining adequate coverage with FDIC insurance or pledged securities to protect bank deposits.

Condition: One bank account was not adequately covered by FDIC insurance or pledged securities at year-end.

Cause of Condition: The Center did not request the bank to pledge securities for the bank account

Effect: Account was underinsured.

Recommendation: Community Healthcore should request the bank to pledge securities to protect underinsured amount.

Current Year Status: This has been corrected in the current year.

Independent Auditor's Management Letter:

During our audit, we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate letter dated January 12, 2018, contains our communication of significant deficiencies or material weaknesses in the Center's internal control. This letter does not affect our report dated January 12, 2018, on the financial statements of the Center.

<u>Finding 2017-001 Change in Pay Rates</u>

Some employees who received raises in the middle of a pay period were noted to have been paid at an incorrect lower rate.

We recommend the Center change have a separate person review manually calculated amounts for pay raises and/or modify their procedures so that raises are effective at the beginning of the next pay period.

<u>Prior year Finding</u>

<u>Finding 2016-001 – Underinsured Bank Account</u>

A bank account was over the FDIC insured amount during the year and had no pledged securities to cover the amount in excess of insurance coverage.

We recommended the Center request the bank to pledge funds to cover the account to be in compliance with the Center's policies and federal regulations.

The Center has corrected this in the current year.

We will review the status of this comment during our next year's audit. We have discussed this comment and suggestion with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Corrective Action Plan: No findings/comments requiring corrective action

3.33 Spindletop Center

City: Beaumont

Counties Served: Chambers, Hardin, Jefferson, and Orange

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-001

Criteria: U.S. GAAP requires controls and procedures to be in place to prevent and detect fraudulent transactions.

Condition: The Center discovered that a former employee was purchasing personal items using a company credit card and submitting fictitious and altered receipts. The Center continues to investigate the impact of the theft. All charges to expense were charged to administration costs and were not allocated to grant programs.

Cause of Condition: Lack of internal control to review and approve credit card charges and purchasing procedures.

Effect: The Center disbursed funds for fictitious charges.

Recommendation: The Center should implement controls over employee credit card purchases including adequate review. We recommend the Center require employees to use Center-approved vendors and receive all purchases at the Center.

Management's Response: Management agrees and continues to investigate the magnitude of the fraudulent transactions and is working to implement stronger controls over the credit card purchasing process.

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

The Center discovered that a former employee was purchasing personal items using a company credit card and submitting fictitious and altered receipts. The Center continues to investigate the theft. All expenses were charged to administrative costs and were not allocated to grant programs.

Corrective Action Plan:

<u>Finding 2017-001</u>

Corrective Action: The credit card purchasing policy is being revised to require purchases only on company approved websites and guidelines for a more thorough review of receipts.

Implementation Timeline: January 2018

Monitoring to be Performed: Staff will review all statements and receipts thoroughly. Also, staff will periodically review submitted receipts with those found on company- approved websites from which the items were purchased.

3.34 StarCare Specialty Health System dba Lubbock Regional MHMR Center

City: Lubbock

Counties Served: Cochran, Crosby, Hockley, Lubbock, and Lynn

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-A – Financial Reporting – Year-End Close Process

Criteria: Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements in a timely manner.

Condition: The Company's year-end close process is not effective for the Company to be able to provide for the preparation of the financial statements and related financial statement disclosures being audited in a timely basis. After our fieldwork, there were numerous adjustments by the Company and we proposed an audit adjustment to salaries accrual that would have resulted in a material misstatement of the Company's financial statements.

Cause of Condition: The Company's finance personnel resources were limited during the Company's year-end close due to the implementation of new general ledger software. The Company also implemented a new payroll system during the fiscal year. Finance supervision over the year end close process was limited and resulted in the adjustments noted above.

Effect: As a result of the statement of condition noted above, the Company's trial balance and internal financials statements and closing reports to the state may include material misstatements until such time as the material adjustments are noted by Company personnel.

Recommendation: We recommend the Company evaluate its year-end close process to identify finance personnel that could assist in identifying adjusting entries prior to the beginning of audit fieldwork. These processes should also include preparation and review of reconciliations over all significant balance sheet accounts.

Management's Response: The Company agrees with the finding. Management is in the process of hiring and training additional personnel in order that the supervisory personnel have time to perform effective reviews of accounts during the close process. This progress was somewhat delayed with the conversion of two major systems during and immediately after the fiscal year. Management is continuing to evaluate and refine the close process to ensure the internal control environment is effective.

Follow-up on Prior Year Findings: None

Independent Auditor’s Management Letter:

We consider the following deficiency in internal control to be a material weakness:

The Company's year-end close process is not effective for the Company to be able to provide for the preparation of the financial statements and related financial statement disclosures being audited in a timely basis. After our fieldwork, there were numerous adjustments by the Company and we proposed an audit adjustment to salaries accrual that would have resulted in a material misstatement of the Company's financial statements.

Corrective Action Plan:

Finding 2017-A – Financial Reporting - Year End Close Process

Finding Summary: StarCare Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP. This includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of financial statements in a timely manner.

Corrective Action Plan: Includes, but is not limited to the following:

1. Formalize a soft close process to be completed by the 7th business day of each month and reviewed on the 8th business day with all accounting staff.

2. Formalize a hard-close process to be completed by the 10th business day of each month and reviewed on the 11th business day with all accounting staff.

3. Formalize the monthly and quarterly general ledger review processes with checklists and staff assignments, with emphasis on the balance sheet accounts.

4. Staff education in the new accounting system, new payroll system and new accounting processes.

5. Finish implementation of new accounting software.

6. Develop a plan for long term departmental organization and delegation of duties.

Anticipating Completion Date: August 31, 2018

3.35 Texana Center

City: Rosenberg

Counties Served: Austin, Colorado, Fort Bend, Matagorda, Waller, and Wharton

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.36 Texas Panhandle Centers Behavioral and Developmental Health

City: Amarillo

Counties Served: Armstrong, Carson, Collingsworth, Dallam, Deaf Smith, Donley, Gray, Hall, Hansford, Hartley, Hemphill, Hutchinson, Lipscomb, Moore, Ochiltree, Oldham, Potter, Randall, Roberts, Sherman, and Wheeler

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs:

Finding 2017-A – Financial Reporting

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP.

This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements in a timely manner and that are free from material misstatement.

Condition: The Center does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements. Additionally, we proposed several audit adjustments to the Center's recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the Center's financial statements.

The Center's year end close process is not effective for the Center to be able to provide for the preparation of the financial statements and related financial statement disclosures being audited in a timely basis. After our audit fieldwork, we were provided several significant adjusting entries to the Center's trial balance resulting in material differences from the original trial balance that was provided to us by the Center.

Cause of Condition: The Center does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures in accordance with generally accepted accounting principles. The Center's finance personnel resources were limited during the Center's yearend close and audit fieldwork.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by Center personnel.

Regarding the close process, significant adjustments provided to us after fieldwork completion require auditing procedures to be performed after we have concluded our audit fieldwork, resulting in cost increases and audit delays. Further, the Center's trial balance and internal financial statements may include material misstatements until such time as the material adjustments are noted by Center personnel.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the Center prepares budgetary and other financial reports for Board review on a routine basis, similar to most governmental entities. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition (i.e., the auditor preparing the financial statements and related disclosures) because of cost or other considerations.

Further, we recommend the Center evaluate its year end close process to identify finance personnel that could assist in identifying material adjusting entries prior to the beginning of audit fieldwork. These processes should also include preparation of and review of reconciliations over significant balance sheet accounts.

Management's Response: Management agrees with the noted finding. Management weighed the costs and benefits of preparing its own financial statements, including proposing the adjusting journal entries that would be necessary, and have decided to continue to outsource this non-audit service to its independent auditor. See separately issued corrective action plan for our more detailed response to this finding.

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: Management Letter not provided

Corrective Action Plan:

<u>Finding 2017-A</u>

Finding Summary: Eide Bailly, LLP, prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that may not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements. Finally, Eide Bailly, LLP, reported that our year end close process was ineffective due to material adjustments provided to the auditors after fieldwork completion.

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors, Eide Bailly, LLP, prepare the financial statements and the accompanying notes to the financial statements as a part of its annual audit.

We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

We will assign financial resources to the year-end close process to ensure timely reconciliations are prepared and all significant adjustments prepared by management prior to audit commencement. We will also monitor this process in segments to ensure its implementation.

Anticipated Completion Date: Ongoing

3.37 Tri-County Behavioral Healthcare

City: Conroe

Counties Served: Liberty, Montgomery, and Walker

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter:

Current year comments (repeat from prior year):

Allowance for Doubtful Accounts

During our review of accounts receivable and the related allowance for doubtful accounts, we noted that the allowance for doubtful accounts has remained at $60,000 for the past five years. Over the last five years the accounts receivable balances have been increasing. We recommend that the Center establish a process for evaluating the adequacy of the allowance for bad debts based on historical collection percentages by payment source. The allowance for doubtful accounts should be adjusted periodically based on this analysis.

Follow-up on prior year comments:

The prior year comment has been addressed in the current year comment above.

Corrective Action Plan: No findings/comments requiring corrective action

3.38 Tropical Texas Behavioral Health

City: Edinburg

Counties Served: Cameron, Hidalgo, and Willacy

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.39 West Texas Centers

City: Big Spring

Counties Served: Andrews, Borden, Crane, Dawson, Fisher, Gaines, Garza, Glasscock, Howard, Kent, Loving, Martin, Mitchell, Nolan, Reeves, Runnels, Scurry, Terrell, Terry, Upton, Ward, Winkler, and Yoakum

Type of Report on Financial Statement: Unmodified

Type of Report on Compliance: Unmodified

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: None

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

4. Conclusion

This report summarizes the independent auditor's findings of 39 LMHAs and their responses.

List of Acronyms

Acronym	Full Name
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
dba	Doing Business As
ECI	Early Childhood Intervention
FDIC	Federal Deposit Insurance Corporation
GAAP	Generally Accepted Accounting Principles
HHS	Health and Human Services
IDD	Intellectual and Developmental Disabilities
LMHA	Local Mental Health Authority
MHMR	Mental Health and Mental Retardation
NTBHA	North Texas Behavioral Health Authority
PCS	Procurement and Contracting Services
SAU	Single Audit Unit
SEFSA	Schedule of Expenditures of Federal and State Awards
RFP	Request for Proposals
UG	Uniform Guidance
UGMS	Uniform Grant Management Standards