Summary of Significant Audit Findings Local Mental Health Authorities for Fiscal Year 2019

As Required by

Texas Health and Safety Code

Section 534.068 (f)

Health and Human Services

December 2020

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Executive Summary

The *Summary of Significant Audit Findings for Local Mental Health Authorities for Fiscal Year 2019* is submitted in compliance with Texas Health and Safety Code, Section 534.068(f).

Local mental health authorities and local behavioral health authorities (LMHAs/LBHAs) 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 Commission (HHSC), Compliance and Quality Control Division, Single Audit Unit (SAU). The SAU notifies HHSC contracting areas of findings in each Single Audit Report. HHSC is responsible for resolution of these 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 2019.

1. Introduction

Texas Health and Safety Code, Section 534.068(f) requires HHSC to submit a report annually to the Governor, Legislative Budget Board (LBB), 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 HHSC in compliance with Texas Health and Safety Code, Section 534.068(a). Per Section 534.068(a), an LMHA/LBHA must submit a financial and compliance audit prepared by a certified public accountant or public accountant licensed by the Texas State Board of Public Accountancy.

This report summarizes auditors' findings from their review of independent financial and compliance audits, in accordance with *2 CFR 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements* or the *Uniform Grant Management Standards* (UGMS).

Fiscal year 2019 findings, questioned costs, and corrective plans are included. 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 HHSC. HHSC reviewed the audits and determined all of the identified findings were significant for purposes of complying with Section 534.068(f).

2. Summary of Significant Findings

3.1 Abilene Regional MHMR doing business as (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: None

Follow-up on Prior Year Findings: 2018-A

Finding 2018-A:

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments that might not would have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statement 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.

Anticipated Completion Date: Resolved

[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.

3.2 Anderson-Cherokee Community Enrichment Services DBA ACCESS

City: Jacksonville

Counties Served: Anderson and Cherokee

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

3.3 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: None

Follow-up on Prior Year Findings: 2018-001 thru 2018-004

<u>2018-001 Material Weakness Related to Internal Controls over Financial Reporting</u>:

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

Condition: During FY 2018, in response to a FY 2017 audit finding, the Center implemented new general ledger software along with new billing software. As a part of the implementation, the software vendors provided training to the Center staff. During our audit procedures, we noted that the accounting staff is still obtaining the knowledge necessary to manage the new general ledger system and produce reports that will assist in the financial reporting process. Areas of difficulty include accounts receivable; the transfer of data between the general ledger and billing software; accounts payable; bank reconciliations; capital assets and debt. These conditions pose a significant risk to internal controls over financial reporting and contributed to a number of adjusting entries at year-end.

Cause: Based on our observation and comments from the Center staff, the staff needs additional training on the use of the general ledger software. The software was implemented toward the end of the fiscal year, so lack of experience with the software also contributed to this condition.

Effect: The Center has difficulty producing internal financial statements that are free of significant adjustments.

Recommendation: We recommend that management implement procedures to update staff training on the use of the new general ledger software.
This additional training may be available from the software vendor or as an alternative, other Centers who utilize the same software may be able to provide assistance.

Management's Response: The Center implemented the financial software on August 1, 2018. The training for our bank reconciliations and fixed assets were scheduled to be after the go-live date. It was anticipated that there would be a learning curve for employees as we spoke with another community center that had begun using the software on Sep. 1, 2017 and indicated that it took approximately six months to get familiar with it. In addition, we had staff turnover in key areas of accounts payable, billing, payroll, and the Director of Revenue Cycle Management. The Center also begin using new electronic health record/billing software in FY2018 on Sep. 1, 2017. As part of that software, there was a general ledger extract to retrieve billing and cash information to go into our new financial software, but it was not functional, which contributed to some of our bank reconciliation issues. We are contracting with an outside programmer to fix this issue. As a result of staff turnover, we did have the electronic health record vendor come on-site on Dec. 18, 19, and 20 to retrain our billing staff for billing and our accounting staff on its reporting capabilities to resolve our reconciliation issues. We are also preparing a gap analysis to determine what additional training is needed from our general ledger software vendor.

Status: Resolved - The accounting staff was reorganized in FY 2019 and general ledger accounts are now being reconciled to the appropriate sub-ledgers.

<u>Finding 2018-002 – Material Weakness Related to Internal Controls over Financial Reporting</u>

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

Condition: During our audit procedures we noted the Center has a process to reconcile bank accounts on a periodic basis. During our review of reconciliations performed during the year, we noted the bank reconciliations reflected differences with the Center's general ledger trial balance. Sometimes these differences were significant. Generally, these differences were caused by payments received in the SmartCare billing software that were not transferred over to the general ledger accounting system. During the year, entries were not made to the accounting system to reconcile the bank reconciliation and the general ledger trial balance. At year-end it was necessary for Center staff to identify and make journal entries to agree the respective bank reconciliations to the general ledger trial balance.

Cause: The Center has no formal procedures in place to make journal entries to adjust the trial balance to agree to the monthly bank reconciliation.

Effect: Failure to make entries in the accounting records to agree bank reconciliations to the trial balance does not provide assurance that financial statements can be prepared in accordance with GAAP. Significant year-end entries were required to adjust the financials to reflect ending reconciled balances for bank accounts.

Recommendation: Following the efforts of the accounting staff, the year-end trial balance was adjusted to reflect reconciled bank balances. We recommend that any necessary entries be made in a timely manner on a monthly basis.

Management's Response: Due to the new general ledger software, it took the accounting staff longer to close the fiscal year than normal which contributed to these issues. Our old software did not have the capability of doing bank reconciliations, so they were done in QuickBooks. The new financial software has a module specifically for bank reconciliations that we are training on now. Once the staff is fully trained, then monthly entries will be made as necessary to reconcile the bank accounts to the general ledger on a monthly basis. Additionally, as mentioned above the accounting staff received training on the electronic health record software in December 2018 to retrieve reports to manually pull information until the general ledger extract is completed.

Status: Resolved - Bank reconciliations are being done in a timely manner and any adjusting entries are made as needed to agree with the general ledger trial balance.

<u>2018-003: Procurement Standards – Uniform Guidance</u>

Criteria: Management is responsible for adopting policies and procedures that comply with the Procurement Standards of the Uniform Guidance. The procurement standards prescribed by the Uniform Guidance require written standards of conduct covering conflicts of interest for all employees involved in procurement. The policy must provide for disciplinary actions for violations.

Condition: The Center utilizes procurement cards for certain small purchases. Employees sign a procurement card agreement when a procurement card is assigned to them. The agreement we reviewed did not specifically address conflicts of interest.

Cause: The procurement standards prescribed by the Uniform Guidance were effective for the first time in FY 2018. As a result, compliance with this requirement is new to community centers.

Effect: The Center is not in full compliance with the procurement standards specified by the Uniform Guidance.

Recommendation: We recommend the Center incorporate language prescribed by the Uniform Guidance related to conflicts of interest in the procurement card agreement.

Management's Response: The procurement card agreement will be updated with the required language and the agreements will be re-issued for signatures by Feb. 28, 2019. Additionally, the business code of conduct which includes conflicts of interest will be revised to include the required language. All Center employees will be required to sign the Business Code of Conduct electronically through our human resource software by March 1, 2019.

Status: Resolved - Policy BBB - Purchasing, Procurement and Contracting for Goods and Services was approved by the Board of Trustees on December 3, 2019.

<u>2018-004 – Formal Policies and Procedures for Monitoring Subrecipients</u>

Criteria: Management is responsible for implementing policies and procedures for monitoring sub-recipients of grant awards. Management is also responsible for having an effective method of responding to prior year findings.

Condition: Effective September 25, 2018, The Board adopted a policy for identifying and monitoring sub-recipients of grant awards. This policy was adopted in response to a FY 2017 audit finding and related recommendation. In our review of the status of prior year findings we noted that management's response in the FY 2017 audit indicated the policy would be adopted by the end of the second quarter of FY 2018. Due to the effective date of the Board policy, the Center's response to the prior year finding was not implemented until FY 2019.

Cause: Management was implementing new general ledger software and billing systems during 2018. It appears that this compliance issue was overlooked.

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

Management's Response: As a result of the FY 2017 audit, the CFO began monitoring the sub-recipient contract in September 2017. A draft of the Sub-Recipient Contractors Monitoring Policy was done in May 2018, but was inadvertently not given to the Board of Trustees for approval until September 2018. The Center is in full compliance with the Substance Abuse grant contract requirements in FY 2019.

Status: Resolved - A draft of the Sub-Recipient Contractors Monitoring Policy was done in May 2018 but was inadvertently not given to the Board of Trustees for approval until September 2018. The Center is in full compliance with the Substance Abuse grant contract requirements in FY 2019.

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: 2019-001

<u>2019-001 Financial Reporting:</u>

Criteria: Management of the Company 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: Our audit procedures indicated that a prior period adjustment was necessary to properly state beginning net position. Without the adjustment to beginning net position could have resulted in a material misstatement of the Center's financial statements.

Cause: The Center entered into an agreement that requires complex transactions related to a housing project.
A note receivable was reflected in prior period as fully funded when only a portion of the note was funded at the time; therefore, net position was overstated.

Effect: At August 31, 2018, notes receivable and net position of governmental activities were overstated by $1,724,389. As a result, the Center recorded a prior period adjustment to reduce net position of governmental activities as of September 1, 2018 by $1,724,389.

Recommendation: The Center should evaluate and improve the controls over financial reporting to ensure accurate financial reporting.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: The Center's Chief Financial Officer has posted to our financial statements the prior period adjustment noted above. In addition, any future adjustments to Notes Receivable will be reviewed and approved by the Chief Administrative Officer/Chief Financial Officer prior to posting.

Status: Ongoing

Anticipated Completion Date: February 1, 2020

Follow-up on Prior Year Findings: None

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: No findings/comments

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: 2019-1 and 2019-2

2019-1 – Financial Statements:

Criteria: Management of the Company 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 the related financial statement disclosures being audited. In conjunction with the completion of the audit, we were requested to draft the financial statements and the accompanying notes to those financial statements.

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

Effect: Although this circumstance is not unusual for an organization of this size, the preparation of financial statements and adjusting journal entries as part of the audit engagements may result in financial statements and related information included in financial statement disclosure not being available for management purposes as timely as it would if prepared by Center personnel. The need for the audit adjustments indicates that Center interim financial statements 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. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of costs and other considerations.

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

Corrective Action Plan: While this is a repeat finding, there is new staff in the Finance Department that will work with the accounting software in order to implement the necessary internal controls necessary to report accurate and timely reports. Management was involved in the preparation of the financial statements and notes to the financial statements but agrees that audit adjustments were necessary.

Status: Ongoing

<u>2019-2 Financial Reconciliation Process:</u>

Criteria: Management of the Center is responsible for the preparation and fair presentation of the financial The Center did not adequately reconcile two significant general ledger accounts in a timely matter. After several attempts, management was able to obtain a better understanding of the accounting software and relationships between the two general ledger accounts. Initially, the operating back account was not properly and completely reconciled to the general ledger balance. Similarly, the accounts payable general ledger did not reconcile to the amount reflected in the general ledger. Eventually, these two general ledger accounts were properly reconciled, and amounts stated in the financial statements are properly reflected.

Cause: The Center did not understand the relationship between the bank reconciliation module to the general leger. Additionally, there was not reconciliation between the accounts payable subsidiary.

Effect: The amounts reflected in the general ledger lack substantiation by the bank reconciliation and the accounts payable detail ledger.

*Recommendation***:** Timely and accurate reconciliation of these two general ledger accounts.

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

Corrective Action Plan: Staff has been trained on how to properly reconcile the balance sheet accounts; in particular, cash and accounts payable. This is done on a monthly basis before presenting monthly reports to the budget and finance committee. During Fiscal Year 2019, there was an issue with the accounting software that created a problem with the reconciliation. The issue was addressed and corrected.

Status: Ongoing

Follow-up on Prior Year Findings: 2018-2 and 2018-3

<u>Finding 2018-2 – Public Funds Investment Act</u>

Criteria: Management of the Center is responsible for adherence to and compliance with the Texas Public Funds Investment Act.

Condition: The Center does not have an internal control system designed to determine adherence to the Public Funds Investment Act.

Cause: The Center has adopted a Public Funds investment policy; however, management has not monitored the policy to determine if it is current with requirements of the Public Funds Investment Act.

Effect: The Public Funds Investment Act requires that the Center's Investment policy be formally reviewed by the Board of Directors at least annually; the Act requires all Investment officers attend certification training; the Act requires acknowledgement of investment policy by external investment brokers; etc.

Recommendation: Obtain the most recent issue of the Texas Public Funds Investment Act. Review the Center's Investment Policy to determine that it is in compliance with the act. Develop internal controls over the Investment Policy to determine that all time tables, certifications, renewals, disclosures, etc. are met and documented.

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

Corrective Action Plan: There is new management in the accounting department, and the Chief Financial Officer is in the process of obtaining public funds investment training to avoid this finding in the future.

Status: During 2019, the Board adopted a revised public funds investment policy to comply with the Public Funds Investment Act.

<u>Finding 2018-3 – Procurement – Repeat Findings</u>

Criteria: 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, also referred to as Uniform Guidance, requires nonfederal entities that expend federal funds to adopt procurement policies that are in compliance with the Uniform Guidance. 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 its procurement policy to be in compliance with the Uniform Guidance. The Center appears to have elected to defer implementation of the procurement policy requirements, but this decision to defer implementation has not be documented. Thus, the Center does not have a control process to ensure compliance with the procurement compliance requirement of the Uniform Guidance.

Cause: The Center was not aware of the requirement to update their procurement policy to be in compliance with the Uniform Guidance.

Effect: Not adopting the procurement requirements of the Uniform Guidance could result in questioned costs since the costs would not be allowable unless certain written policies were adopted.

Recommendation: We recommend that the Center adopt a procurement policy in accordance with the Uniform Guidance.

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

Corrective Action Plan: The Chief Financial Officer is in the process of drafting a new procurement policy that adheres to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements. In addition, training will be provided to all staff in the new procurement policy.

Status: During 2019, the Board adopted a Procurement policy to comply with 2 CFR 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

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: 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

3.9 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: None

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

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

Follow-up on Prior Year Findings: 2018-A and 2018-001

<u>Finding 2018-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. We also noted a lack of review of account reconciliations throughout the year that could lead to inaccurate monthly financial statements.

Cause: 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 also does not have policies in place to ensure review of all reconciliations.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements 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. Further lack of account reconciliation review could lead to inaccurate financials.

Recommendation: The Center should continue to evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed and account reconciliations and schedules are reviewed and approved.

Management's Response: Management agrees with the noted finding. Refer to the Corrective Action Plan.

Corrective Action Plan: Our Business Office experienced turnover during Fiscal year 2018. A new CFO was hired in October 2018 & the Business Analyst I position was filled in December 2018. We now have a team in place diligently working to improve the process of checks & balances. Also, we hired a Comptroller in March of 2019. This new addition to our team will further assist in the segregation of duties and contribute to the checks & balances processes. We believe we have made significant, substantive progress.

Status: Resolved

<u>Finding 2018-001 – Medical Assistance Program (MAC), CFDA 93.778 Texas Health and Human Services Commission: General Revenue – Mental Health Audit; General Revenue – Intellectual and Developmental Disabilities</u>
Criteria: Federal and state programs require adequate review of information prepared for and submitted to outside parties.

Condition: The Center does not have an internal control system designed to provide sufficient and adequate review and approval of documentation, reports and information submitted to outside parties.

Cause: The Center has not developed an internal control system to provide for the adequate review of information submitted to outside parties due to turnover in the current year of key management and accounting personnel.

Effect: Although this circumstance is not unusual for an organization of your size, the lack of review could result in error in proper reporting, grants being charged incorrectly and the possibility of management override of internal controls.

Recommendation: We recommend the Center implement a system of proper review and approval by appropriate personnel of all documentation and information prepared for and submitted to outside parties to mitigate the risk of improper reporting, overcharging of grants, and management override.

Management's Response: Management agrees with the finding. Refer to the Corrective Action Plan.

Corrective Action Plan: We now have a process in place for review and approval of all documentation, reports and information submitted to outside parties.

Status: Resolved

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: 2019-001

<u>2019-001 State Award Findings and Questioned Costs</u>:
Criteria: Terms of the SB 292 contract require documentation of a local match in an amount equal to 100 percent of the charges billed to the program. The match may consist of either a cash match or an in-kind match.

Condition: The contract budget submitted for the SB 292 contract indicated an in-kind match would be provided by Bell County. This match was not documented in the Center records until January 20, 2020, at which time Bell County representatives documented and confirmed the necessary match had been provided.

Cause: The Center was not documenting the in-kind local match provided by the County on an on-going basis during the year.

Effect: Following the year-end, considerable effort was required by Center staff to obtain documentation from the County to demonstrate compliance with the local match requirement.

Recommendation: The Center should establish procedures to document the local match requirement on an on-going basis. We recommend that the local match be documented on a monthly basis as the in-kind match is provided by the County.

Management's Response: The Executive Director, Chief Operating Officer, Director of Finance, Director of Behavioral Health, and the Adult Behavioral Health Director met to discuss the findings. We agree with the audit finding and are providing the Corrective Action Plan described later in this report.

Corrective Action Plan: A Memorandum of Understanding (MOU) will be developed between Central Counties Services and Bell County to reflect monthly oversight processes to determine local match. Included will be the requirement of a worksheet to be completed monthly showing the match. Bell County is expected to maintain the supportive documentation for the worksheet, with the worksheet forwarded to the Director of Behavioral Health and to the Director of Finance no later than the tenth day of the following month. The local match monthly computations will be completed retroactively to 9/1/2019.

Status: Resolved

Follow-up on Prior Year Findings: None

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: 2019-001 thru 2019-003

<u>Finding 2019-001 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: 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: The Center should evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed.

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

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 draft financial statements and accompanying notes, and we have reviewed and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Finding 2019-002: Account Reconciliations

Criteria: Several accounts, including accounts receivable and accounts payable, should be reconciled at the end of each reporting period. In addition, someone other than the preparer of the reconciliation should review the reconciliation and document their approval.

Condition: The Center does not have a process for the preparation of reconciliations of account balances and/or does not have a process in place for review and approval of these reconciliations by someone other than the preparer. If certain accounts are not reconciled, the financial statements could result in a material misstatement.

Cause: Accounts receivable and accounts payable are not reconciled at year end.

Effect: The lack of account reconciliations increases the risk of material misstatement in the financial statements, either due to error or fraud.

Recommendation: The Center should design and implement a reconciliation process for account reconciliations, including review of these reconciliations by someone other than the preparer.

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

Corrective Action Plan: The Center will design and implement a reconciliation process for investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations, including review of these reconciliations by someone other than the preparer.

Anticipated Completion Date: December 31, 2020

Finding 2019-003: Procurement, Suspension, Debarment

Criteria: Uniform Guidance required the Center to update their procurement policy effective September 1, 2018, to include certain items including certain thresholds to procure the acquisition of goods and services. Additionally, Uniform Guidance requires policies to address conflict of interest, including disciplinary actions for failure to adhere, acquisition of duplicative items, and provisions to ensure all solicitations incorporate clear and accurate descriptions of technical requirements, do not restrict completion and identify all requirements which the offeror must fulfill, and factors used in evaluation.

Condition: The Center's procurement policy did not include the items required by Uniform Guidance.

Cause: The Center did not update the procurement policy to include the items that are required under the Uniform Guidance.

Effect: The Center did not have proper procurement policy during the year and this could potentially lead to the Center entering into transactions for goods and/or services that are not properly procured as required by law.

Recommendation: It is recommended that the Center update their procurement policy and include the requirements established by Uniform Guidance.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: The Center will update the procurement policy to include all requirements by Uniform Guidance.

Anticipated Completion Date: December 31, 2020

Follow-up on Prior Year Findings: 2018-A, 2018-B, 2018-C
<u>Finding 2018-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: 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: The Center should evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed.

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

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly, LLP prepare our draft financial statements and accompanying notes to the financial statements.

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 draft financial statements and accompanying notes, and we have reviewed and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: December 31, 2020

<u>Finding 2018-B – Reconciliations of Investments, Prepaid Expenses, Accounts Receivable, Accounts Payable, and Long-Term Obligations</u>

Criteria: Investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations should be reconciled at the end of the fiscal year. In addition, someone other than the preparer of the reconciliation should review the reconciliation and document their approval.

Condition: The Center does not have a process for the preparation of reconciliations of investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations and/or does not have a process in place for review and approval of these reconciliations by someone other than the preparer. If certain accounts are not reconciled, the financial statements could result in a material misstatement.

Cause: Investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations are not reconciled at year end.

Effect: The lack of reconciliations of investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations increases the risk of material misstatement in the financial statements for these areas, either due to error or fraud.

Recommendation: The Center should design and implement a reconciliation process for investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations, including review of these reconciliations by someone other than the preparer.

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

Corrective Action Plan: The Center will design and implement a reconciliation process for investments, prepaid expenses, accounts receivable, accounts payable and long-term obligations, including review of these reconciliations by someone other than the preparer.

Status: The Center has not fully implemented a process that resolves the issue above.

Anticipated Completion Date: December 31, 2020

<u>Finding 2018-C – Review and Approval of Journal Entries</u>

Criteria: Journal entries should be reviewed and approved prior to posting.

Condition: The Center does not have an internal control process for the review and approval of journal entries. The oversight provided by an effective review and approval process is important to the Center as a result of the limited segregation of duties that exists due to the size of the accounting staff.

Cause: Journal entries are not reviewed and approved prior to posting.

Effect: The lack of a review and approval process for recorded journal entries increases the risk of material misstatement in the financial statements, either due to error or fraud.

Recommendation: An employee other than the employee preparing the journal entries should review and approve the journal entries before posting.
Management's Response: Management agrees with the note finding.

Corrective Action Plan: The Center will ensure that a member of management other than the employee preparing the journal entries will review and approve the journal entries before posting.

Status: The Center has not fully implemented a process that resolves the issue above.

Anticipated Completion Date: December 31, 2020

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

Independent Auditor's Management Letter: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

Schedule of Findings and Questioned Costs: None

Follow-up on Prior Year Findings: 2018-001 thru 2018-003

Finding 2018-001 – Significant Deficiency Relating to Controls over Financial Reporting

Criteria: Management of the Center is responsible for the preparation of financial statements that are fairly presented in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: During our audit procedures we identified adjusting entries to accounts payable that were significant to the financial statements of the Center which were required to present the financial statements in accordance with U.S. generally accepted accounting principles.

Cause: This was a result of turnover in accounts payable staff during the fiscal year.

Effect: Significant audit adjustments identified at year-end limit the Center's ability to produce financial information necessary to present financial statements in accordance with U.S. generally accepted accounting principles.

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

Management's Response: The General Ledger Accountant will review monthly accounts payable transactions and balance sheet accounts to ensure charges are posted in the proper period in accordance with generally accepted accounting principles.

Status: Additional training was implemented resulting in all accounts payable at August 31, 2019, being identified and recorded prior to year-end close out.

Finding 2018-002 – Identification of Expenditures of Federal Awards

Criteria: Management is responsible for identifying all federal and state expenditures for the fiscal year, so they may be presented in the Schedule of Expenditures of Federal and State Awards

Condition: The Center recorded FEMA Crisis Counseling Immediate Services Program (ISP) revenue netted with program expenditures on the general ledger.

These amounts could have been inadvertently overlooked and omitted from the Schedule of Expenditures of Federal and State Awards.

Cause: This was a result of an oversight by the Center staff.

Effect: The Center's general ledger did not readily identify the FEMA Crisis Counseling Immediate Services Program (ISP) federal award as required by the Uniform Guidance.

Recommendation: The Center's general ledger should be maintained so that federal awards are readily identifiable.

Management's Response: The Center has noted this finding and will ensure all future federal awards are readily identifiable on the general ledger.

Status: Additional training was implemented discussing the procedures to identify all federal and state expenditures for inclusion of the Schedule of Expenditures of Federal and State Awards.

<u>Finding 2018-003 – Internal Controls over Program Intake and Eligibility</u>

Criteria: The Center's grant contract with the Texas Health and Human Services Commission to provide Adult Mental Health services requires the Center to establish and maintain a current financial assessment and treatment plan for consumers as part of the intake and eligibility process.

Condition: Documentation of proof of income necessary for appropriate financial assessment is not always obtained for consumers in order to assure appropriate fee assessment. In addition, current treatment plans are not always maintained for consumers receiving services at the Center.

Cause: The Center's intake and eligibility process for documentation of proof of income and financial assessment and maintenance of a current treatment plan has not been effectively implemented. Based on our discussion with management it appears turnover in staff responsible for this area was a contributing factor.

Effect: All consumer files do not maintain proper documentation of proof of income and financial assessment and current treatment plans in accordance with the terms of the HHSC grant contract.

Recommendation: The Center should establish procedures to assure documentation of proof of income necessary for financial assessment is maintained for all consumers. This information should be utilized for proper fee assessment. The Center should establish procedures to assure a current treatment plan is maintained for all consumers.

Management's Response: The Chief Financial Officer will stress this requirement to both Mental Health and IDD program directors, and with the Quality Management Director. Emphasis on training staff will be emphasized.

Status: The Center's intake and eligibility process for documentation of proof of income and financial assessment and maintenance of a current treatment plan has been reviewed and revisions implemented.

3.14 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: 2019-001

<u>2019-001 Significant Deficiency Related to Controls Over Financial Reporting – Year-end adjustments</u>

Criteria: LifePath is responsible for maintaining proper internal controls over financial reporting.

Condition: Significant adjusting entries were posted to LifePath's financial statements in December and January following year-end. Most of these adjustments related to adjusting accounts receivable to the estimated net realizable value. Entries were also required for deferred contract revenues.

Cause: LifePath does not presently have an effective method of making a reasonable estimate of the net realizable value of accounts receivable on a monthly basis. In addition, LifePath does not presently have an effective method to recognize revenues from contract funds received in advance based on actual expenditures. Turnover in the CFO position during the fiscal year was a contributing factor to these conditions. The new CFO will need additional time to train staff and implement procedures in these areas.

Effect: LifePath's financial statements required significant adjustments in these financial statement areas.

Recommendation: LifePath should implement procedures to estimate and adjust the net realizable value of receivables during the year. LifePath should also develop procedures to recognize contract revenues received in advance as expended. These procedures will assist with more accurate and timely financial reporting.

Management's Response: Management agrees with this recommendation. The CFO and the Revenue Manager are developing a procedure to estimate collectible revenue and to ensure adjustments are made accordingly. The new financial system software and the new electronic health record (both implemented in 2019) will be invaluable in estimating and tracking all reimbursements and revenues. Additionally, monthly reconciliations have already been implemented that allow the Fiscal Department to monitor the use and amounts remaining of all prospective (advanced) funding in a more timely and accurate manner.

Corrective Action Plan: The CFO and the Revenue Manager are developing a procedure to estimate collectible revenue and to ensure adjustments are made accordingly. The new financial system software and the new electronic health record (both implemented in 2019) will be invaluable in estimating and tracking all reimbursements and revenues. Additionally, monthly reconciliations have already been implemented that allow the Fiscal Department to monitor the use and amounts remaining of all prospective (advanced) funding in a more timely and accurate manner.

Status: Resolved

Follow-up on Prior Year Findings: 2018-001 thru 2018-005

<u>Finding 2018-001 – Material Weakness Related to Internal Controls over Financial Reporting – Accrued Payroll Liabilities</u>

Criteria: LifePath is responsible for maintaining proper internal controls over accrued payroll liabilities.

Condition: LifePath's internal control system allowed the Center to understate accrued payroll liabilities by approximately $295,000 at year-end.

Cause: This was due to an error in the calculation of the accrued payroll liabilities at year-end. LifePath's internal controls over review of accrued payroll liabilities were not effective to conduct a proper review of the calculation at year-end.

Effect: LifePath's accrued payroll liabilities required audit adjustments at year-end in order to fairly state the liabilities in accordance with generally accepted accounting principles.

Recommendation: LifePath should implement procedures to properly review the accrued payroll liabilities calculation to assure it is fairly stated in accordance with generally accepted accounting principles.

Management's Response: An error occurred at year-end when the accountant used an incorrect payroll file in the monthly accrual calculations. This error was not caught during the supervisor's review and approval of the journal entries.
LifePath fiscal team members involved in the month-end process received training on the computation of the monthly accrued payroll liabilities on Feb 28, 2018.
Management agrees with the recommendation and will re-train staff so that these liabilities are properly reviewed prior to posting of the entry to the general ledger.

Corrective Action Plan: An error occurred at year-end when the accountant used an incorrect payroll file in the monthly accrual calculations. This error was not caught during the supervisor's review and approval of the journal entries. LifePath fiscal team members involved in this month-end process received training on the computation of the monthly accrued payroll liabilities on February 2, 2018.
Management agrees with the recommendation and will re-train staff so that these liabilities are properly stated each month and the accuracy of the liabilities are properly reviewed prior to posting of the entry to the general ledger.

Status: Resolved

<u>Item 2018-002 – Material Weakness Related to Internal Controls over Financial Reporting – Accounting for the Internal Service Fund</u>

Criteria: LifePath is responsible for maintaining proper internal controls over financial reporting.

Condition: LifePath’s internal service fund revenues and expenses are not properly coded on the general ledger during the fiscal year.

Cause: LifePath’s general ledger for the internal service fund was not set up to properly account for revenues and expenses. At year-end, the general ledger was modified to set up accounts to reflect revenues and expenses of the internal service fund.

Effect: LifePath's internal service fund required audit adjustments at year-end in order to properly reflect current year revenues and expenses.

Recommendation: LifePath should implement procedures to assure all internal service fund revenues and expenses are coded appropriately in the general ledger to reflect accurate financial reporting during the year.

Management's Response: Management agrees to make the suggested change in the method in which internal service fund revenues and expenses are recorded in the general ledger throughout the year and will work to incorporate these procedures and processes into the new fiscal accounting system currently being implemented.

Corrective Action Plan: Management agrees to make the suggested change in the method in which internal service fund revenues and expenses are recorded in the general ledger throughout the year and will work to incorporate these procedures and processes into the new fiscal accounting system currently being implemented.

Status: LifePath installed new general ledger accounting software during 2019. Implementation of the corrective action was delayed by this process. A further correction will occur in FY 2020 as we continue to separate the fixed assets and plan to create a capital asset grouping fund to manage assets not in the ISF.

<u>Item 2018-003 – Internal Controls over Procurement Cards</u>

Criteria: LifePath is responsible for maintaining proper internal controls over procurement card expenditures.

Condition: LifePath's internal control system allowed the Center to understate procurement card expenditures by approximately $156,000 at year-end.

Cause: This was due to the accounting department not receiving timely supporting documentation for multiple procurement card purchases from responsible parties in order to properly code these expenditures and post them to the general ledger.

Effect: LifePath's procurement card transactions required audit adjustments at year-end in order to record these expenditures in the general ledger.

Recommendation: LifePath should implement procedures to assure all supporting documentation for procurement card transactions is submitted to the accounting department in a timely manner and that all procurement car expenditures are posted to the general ledger to reflect accurate financial reporting.

Management's Response: Management agrees with this recommendation and has already implemented additional monthly reminder notifications to cardholders regarding submission deadlines. Additionally, a separate procurement card procedure with specific reporting requirements has been drafted (along with supporting forms/documents. This procedure is currently in the process of being reviewed for subsequent adoption and inclusion in the LifePath System's Policy and Procedure manual.

Corrective Action Plan: Management agrees with this recommendation and has already implemented additional monthly reminder notifications to cardholders regarding submission deadlines. Additionally, a separate procurement card procedure with specific reporting requirements has been drafted (along with supporting forms/documents). This procedure is currently in the process of being reviewed for subsequent adoption and inclusion in the LifePath System's Policy and Procedure manual.

Status: Resolved

<u>Item 2018-004 – Compliance with Grant Contract Reporting</u>

Criteria: The Texas Health and Human Services Commission contract for Early Childhood Intervention (ECI) services requires quarterly financial reports that are due within one month after the end of each quarter.

Condition: The quarterly report for the period ending November 30, 2017 was filed on August 13, 2018 which was after the required due date. The quarterly report for the period ending May 31, 2018 was filed on July 18, 2018 which was after the required due date. All of the remaining reports were filed timely.

Cause: The first quarter report was not filed timely due to the Center not having the final executed ECI contract by the due date of the report. The third quarter report was not filed timely due to the Billing Manager being out on personal leave due to unforeseen circumstances.

Effect: The reports for the first and third quarters were filed after the due date.

Recommendation: LifePath should implement procedures to assure HHSC ECI reports are filed in a timely manner in accordance with the contract.

Management's Response: Management agrees with this recommendation. Additional staff members will be trained in report preparation so as to provide alternative coverage should the primary preparer be unable to do so.

Corrective Action Plan: Management agrees with this recommendation. Additional staff members will be trained in report preparation so as to provide alternative coverage should the primary preparer be unable to do so.

Status: Resolved

<u>Item 2018-005 – Compliance with Policies and Procedures under the Uniform Guidance</u>

Criteria: The Uniform Guidance requires written conflict of interest policies. No employee or agent of the Center may participate in the selection, award, or administration of a contract funded by federal grant dollars if he or she has an actual or apparent conflict of interest. The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the Center.

Condition: The Center maintains a code of ethics policy. This policy does specifically address conflicts of interest for individuals involved in purchasing goods and services for the Center or disciplinary actions for violations of such policy.

Cause: This was a result of oversight by management of the Center.

Effect: The Center is not in compliance with the Uniform Guidance requirements.

Recommendation: LifePath should implement a conflict of interest policy that is in compliance with the Uniform Guidance.

Management's Response: Management agrees with this recommendation. to expand the current code of ethics policy to include addressing the conflict of interest for individuals involved in purchasing goods and services for the Center and the disciplinary actions for any violations of the policy in accordance with the Uniform Guidance requirements.

Corrective Action Plan: Management agrees with the recommendation to expand the current code of ethics policy to include addressing the conflict of interest for individuals involved in purchasing goods and services for the Center and the disciplinary actions for any violations of the policy in accordance with the Uniform Guidance requirements.

Status: Resolved

3.15 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

3.16 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 Prior Year Findings

Independent Auditor's Management Letter: Management letter not provided

Corrective Action Plan: No findings/comments requiring corrective action

3.17 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

3.18 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: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.19 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: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.20 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: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

3.21 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: 2018-001

Finding 2018-001 – Internal Controls over Maintenance of Current Recovery Plans

Criteria: The Center's contract with the Texas Health and Human Services Commission (HHSC) to provide mental health services requires the Center to maintain current recovery plans for consumers in mental health programs.

Condition: Documentation of a current recovery plan is not always maintained for consumers receiving services at the Center.

Cause: The Center's controls over this area were disrupted by the implementation of a new client record system in 2018. The implementation of the new system led to delays in updating recovery plans.

Effect: All consumer files did not contain current recovery plans in accordance with the terms of the HHSC mental health contract.

Recommendation: In July of 2018, management recognized this issue and initiated a plan of correction so that consumer recovery plans would be brought up to date. This plan of correction was on-going at the time of our audit field work. We encourage management to continue with this plan of correction.

Management's Response: The monitoring of the Recovery Plans has been underway, and improvement has been noted on a monthly basis. As part of our internal quality management practices, medical records are pulled on a monthly basis and the element of Recovery Planning is being closed audited. A follow up process to each audit completed is known as a Quality Management Action Plan or QMAP which requires the Case Manager and Supervisory staff to discuss the findings of the audit tool; agree to corrective actions taken and encourages refresher training to ensure ongoing competency of the staff member.

Corrective Action Plan: The monitoring of the Recovery Plans has been underway, and improvement has been noted on a monthly basis. As part of our internal quality management practices, medical records are pulled on a monthly basis and the element of Recovery Planning is being closed audited. A follow up process to each audit completed is known as a Quality Management Action Plan or QMAP which requires the Case Manager and Supervisory staff to discuss the findings of the audit tool; agree to corrective actions taken and encourages refresher training to ensure ongoing competency of the staff member.

Status: Resolved

3.22 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: None

Follow-up on Prior Year Findings: 2018-A, 2018-B, and 2018-001

Finding 2018-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: 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 the independent auditor.

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.

Status: Resolved

<u>Finding 2018-B – Significant Deficiency</u>

Criteria: Management of the Center is responsible for the implementation and maintenance of internal controls over payroll processes.

Condition: Salary and on-call pay paid to one salaried employee tested and recorded in the general ledger does not agree with budgetary action request and position action request form in the employee's payroll file.
Further, for four employees tested, their pay was allocated to various cost centers in the general ledger based on their budgeted allocation and not based on their actual time spent in the cost centers per timesheets approved by their supervisor.

Cause: Employee timesheets are properly approved by the employee's supervisor. However, the timesheets are summarized in an Excel spreadsheet through a manual process, which is then used to enter pay into the general ledger. The Center does not review the spreadsheet used to enter time into Abila, resulting in a process prone to errors.

Effect: While none of these errors were material to the financial statements, without adequate controls there is a potential that errors could occur that could have a significant impact on the financial statements.

Recommendation: We recommend the Center explore a more automated process of supervisor approval of timesheets and posting of time to cost centers through their new financial software and attempt to eliminate the manual process of summarizing payroll into a master spreadsheet.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: We have been and are working to get a separate test database to test additional payroll programming that is needed for the proper calculation of payroll based upon current FSLA rules and HCMHDDC policies. Additionally, this will allow testing for direct employee input into Microix timekeeping system. This will eliminate double entry of the employee's time and allow for time entry to be approved directly in the Microix timekeeping system by the supervisor. Software programming will be tested to ensure accuracy for the Phase II implementation.

Beginning January 1, 2019, all signed employee timesheets will be scanned to the HR office for quality control.

Phase II of the Abila/Microix implementation will allow for Timekeepers in each location to enter the employee's time from their signed timesheet directly into the Microix timekeeping system. This will eliminate the Excel Timekeeper Timesheet and Summary Page as well as HR's data entry of the employee's time.

This will increase efficiency and eliminate more opportunity for data entry errors, accurately reflect time entered by the employee in their cost center(s), as well as allow HR to quality control timekeeper entries against the signed employee timesheet. Implementation by calendar year second quarter 2019 to include updated timekeeping policy and procedure.

Phase III of the Abila/Microix implementation will allow employees to enter time directly into the Microix timekeeping system and supervisors will approve all time entries electronically. This will further increase efficiencies by eliminating the need for timekeepers and allow employees to view their pay data directly online. Phase III will eliminate the need for paper timesheets and duplicate entries. Implementation by calendar year fourth quarter 2019 to include updated timekeeping policy and procedure.

Status: An electronic time keeping system was implemented to allow employees to enter time directly into the Microix timekeeping system. This has allowed supervisors to approve all timesheets entries electronically. This has also increased efficiencies by eliminating the need for timekeepers and allowing employees to view their pay data directly online. Paper timesheets and duplicate entries have also been eliminated reducing the possibility of mistakes.

<u>Finding 2018-001 –Significant Deficiency in Internal Controls over Compliance and Noncompliance</u>

Criteria: Federal and state cost principles require that charges for payroll for employees that worked in more than one grant be supported by time and effort records (i.e., timesheets) for the actual time spent in these areas and not based on a budgeted formula.

Condition: Salary and on-call pay paid to one salaried employee tested and recorded in the general ledger does not agree with budgetary action request and position action request form in the employee's payroll file. Further, for four employees tested, their pay was allocated to various cost centers in the general ledger based on their budgeted allocation and not based on their actual time spent in the cost centers per timesheets approved by their supervisor.

Cause: Employee timesheets are properly approved by the employee's supervisor. However, the timesheets are summarized in an Excel spreadsheet through a manual process, which is then used to enter pay into the general ledger. The Center does not review the spreadsheet used to enter time into Abila, resulting in a process prone to errors.

Effect: A portion of payroll charges to cost centers is based on a budgeted allocation and not based on actual time spent in the cost centers.
Recommendation: We recommend the Center explore a more automated process of supervisor approval of timesheets and posting of time to cost centers through their new financial software and attempt to eliminate the manual process of summarizing payroll into a master spreadsheet.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: We have been and are working to get a separate test database to test additional payroll programming that is needed for the proper calculation of payroll based upon current FLSA rules and HCMHDDC policies. Additionally, this will allow testing for direct employee input into Microix timekeeping system. This will eliminate double entry of the employee's time and allow for time entry to be approved directly in the Microix timekeeping system by the supervisor. Software programming will be tested to ensure accuracy for the Phase II implementation.

Beginning January 1, 2019, all signed employee timesheets will be scanned to the HR office for quality control.

Phase II of the Abila/Microix implementation will allow for Timekeepers in each location to enter the employee's time from their signed timesheet directly into the Microix timekeeping system. This will eliminate the Excel Timekeeper Timesheet and Summary Page as well as HR's data entry of the employee's time. This will increase efficiency and eliminate more opportunity for data entry errors, accurately reflect time entered by the employee in their cost center(s), as well as allow HR to quality control timekeeper entries against the signed employee timesheet. Implementation by calendar year second quarter 2019 to include updated timekeeping policy and procedure.

Phase III of the Abila/Microix implementation will allow employees to enter time directly into the Microix timekeeping system and supervisors will approve all time entries electronically. This will further increase efficiencies by eliminating the need for timekeepers and allow employees to view their pay data directly online. Phase III will eliminate the need for paper timesheets and duplicate entries. Implementation by calendar year fourth quarter 2019 to include updated timekeeping policy and procedure.

Status: An electronic time keeping system was implemented to allow employees to enter time directly into the Microix timekeeping system. This has allowed supervisors to approve all timesheets entries electronically. This has also increased efficiencies by eliminating the need for timekeepers and allowing employees to view their pay data directly online. Paper timesheets and duplicate entries have also been eliminated reducing the possibility of mistakes.

3.23 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: No findings/comments

Corrective Action Plan: No findings/comments requiring corrective action

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: 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

3.27 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: 2019-001

<u>Finding 2019-001: Review of reconciliations of various accounts</u>

Criteria: Accounts receivable, interfund balances, health claims incurred but not reported (IBNR), capital assets, unearned revenue and long-term obligations should be reconciled at the end of the fiscal year. In addition, someone other than the preparer of the reconciliation should review the reconciliation and document their approval. Statement of Condition: The Center has made significant progress in the preparation of reconciliations of accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations but the Center does not have a process in place for review and approval of these reconciliations by someone other than the preparer. The lack of review and approval over significant reconciliation processes could result in a material misstatement.

Cause: Reconciliation of accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations are not reviewed by someone other than the preparer at year end.

Effect: The lack of review of reconciliations of accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations increases the risk of material misstatement in the financial statements for these areas, either due to error or fraud.

Recommendation: The Center should implement a process of review and approval of reconciliations by someone other than the preparer.

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

Corrective Action Plan: The Center will implement a process of review and approval of reconciliations by someone other than the preparer.

Anticipated Completion Date: Ongoing

Follow-up on Prior Year Findings: 2018-001 and 2018-002

<u>Finding 2018-001 – Material Weakness Related to Internal Controls over 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: 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. In addition, the Center recorded a prior period adjustment to increase net position and capital assets of governmental activities as of September 1, 2017, by $413,571.

Recommendation: The Center should evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed.

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

Status: Resolved

<u>Finding 2018-002 – Material Weakness Related to Reconciliations of Various Accounts</u>

Criteria: Accounts receivable, interfund balances, health claims incurred but not reported (IBNR), capital assets, unearned revenue and long-term obligations should be reconciled at the end of the fiscal year. In addition, someone other than the preparer of the reconciliation should review the reconciliation and document their approval.

Condition: The Center does not have a process for the preparation of reconciliations of accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations and/or does not have a process in place for review and approval of these reconciliations by someone other than the preparer. If certain accounts are not reconciled, the financial statements could result in a material misstatement.

Cause: Accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations are not reconciled and/or reviewed by someone other than the preparer at year end.

Effect: The lack of reconciliations of accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations increases the risk of material misstatement in the financial statements for these areas, either due to error or fraud.

Recommendation: The Center should design and implement a reconciliation process for accounts receivable, interfund balances, IBNR, capital assets, unearned revenue and long-term obligations, including review of these reconciliations by someone other than the preparer.

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

Status: Not fully resolved. This finding is partially repeated in current year Finding 2019-001.

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

<u>Item 2018-001 – Compliance with Procurement Requirements under the Uniform Guidance</u>

Criteria: The Uniform Guidance requires written standards of conduct covering conflicts of interest and governing the performance of employees engaged in the selection, award and administration of contracts. No employee or agent of the Center may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest.

The standards of conduct must provide for disciplinary actions to be applied for violations of such standards by officers, employees, or agents of the Center.

Condition: The Center's conflict of interest policy does not presently contain all of the requirements set forth in the Uniform Guidance for employees participating in the procurement process.

Cause: The procurement standards associated with the Uniform Guidance first became effective during FY 2018. Center management normally looks to the State of Texas Uniform Grant Management Standards for procurement guidance. Management was not aware of this new federal procurement requirement.

Effect: The Center's conflict of interest policy is not in full compliance with the Uniform Guidance requirements.

Recommendation: MHMR should review its current written standards related to conflicts of interest and revise as necessary to assure compliance with Uniform Guidance requirements.

Management's Response: See corrective action plan.

Corrective Action Plan: MHMR of Tarrant County will begin requiring all employees that are issued a purchasing card and/or given approval rights in the Purchasing System to sign a conflict of interest form that discloses any potential conflicts of interest, if applicable.

Status: Resolved

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: 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

3.30 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: 2018-A

<u>Finding 2018-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 accurate preparation of the financial statements and related financial statement disclosures being audited. We proposed 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: The Center has not previously recorded an allowance for insurance receivables as they write off aged receivables each month over 90 days old. We identified approximately $100,000 in receivables written off subsequent to year-end that relate to recorded receivables at August 31, 2018. Further, the Medicaid

Administrative Claiming (MAC) receivable had only been accrued through March 2018 services due to the lag time in filing requirements and receiving payment. GAAP requires that the receivable be accrued through year-end; however, revenues not considered available should be reported as deferred inflows of resources in the General Fund.

Effect: At August 31, 2018, the MAC receivable and related deferred inflows of resources in the general fund were understated by $225,897. In the government-wide financial statements, beginning net position was understated by $274,351 and 2018 revenues were overstated by $48,454. Accordingly, the Center recorded a prior period adjustment to increase net position of governmental activities as of September 1, 2017, by $274,351. The general fund and government-wide financial statements also understated the allowance for insurance receivables by $70,000 at August 31,2017.
Accordingly, the Center recorded a prior period adjustment to decrease net position of governmental activities and fund balance of the general fund as of September 1, 2017, by $70,000.

Recommendation: The Center should record receivables in accordance with GAAP. This includes recording an allowable for receivables not expected to be collected. This also includes adjusting receivables such as MAC for services provided through fiscal year end within the parameters of the modified accrual basis in the governmental fund statements.

Management's Response: Management agrees with the noted finding. The Center's Chief Financial Officer has posted to our financial statements the two audit adjustments identified during the audit. Going forward, the Center will record receivables in accordance with GAAP. This includes recording an allowable for receivables not expected to be collected. This also includes adjusting receivables such as MAC for services provided through fiscal year end within the parameters of the modified accrual basis in the governmental fund statements.

Status: Corrective action was taken. The auditor did not propose any material audit adjustments in the current year.

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: None

Independent Auditor's Management Letter: No findings/comments

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: None

Follow-up on Prior Year Findings: 2018-001

<u>Finding 2018-001 – Reporting – Significant Deficiency in Internal Control over Compliance</u>

Criteria: Grant agreement requires controls over payroll transactions to ensure the right amount is charged to the grant.
Condition: The Center discovered that an employee entered and was paid for 40 hours of overtime during one week rather than 40 hours of regular time.

Cause: The Center did not have adequate internal control to ensure review and approve timecard entry.

Effect: The Center disbursed funds for incorrect time entry.

Recommendation: The Center should implement tighter controls over timecard approval. We recommend the Center review all timecard entries involving overtime to ensure accuracy.

Management's Response: Management agrees with the finding. Refer to Corrective Action Plan.

Corrective Action Plan: An additional level of timecard approval was implemented to review all timecard entries, focusing on overtime and other entries outside of regular hours.

Status: Resolved – The Center implemented tighter controls over timecard approval.

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: 2019-001 and 2019-002

Finding 2019-001: Financial Reporting

Criteria: Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP) as well as timely reconciliations of account balances. 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 which includes proper reconciliations of account balance.

Condition: While improved from the prior years, the Company's internal control system designed to provide for the timely preparation of accurate internal financials, account reconciliations and preparation of the financial statements and related financial statement disclosures being audited is not adequate. Our audit procedures indicated that the Company lacks proper controls over the complete closing process, including accurate and timely reconciliations of all accounts. Further, there were material entries recorded that were detected as a result of audit procedures. Finally, in conjunction with the completion of our audit, we were requested to draft the financial statements and accompanying notes to those financial statements.

Cause: The Company does not prepare and has not developed an internal control system to provide for timely and accurate reconciliations for all accounts and preparation of timely and accurate internal and external financial statements and related disclosures in accordance with generally accepted accounting principles in a timely and accurate manner.

Effect: The preparation of financial statements and lack of proper account reconciliations may result in financial statements and related information included in financial statement disclosures not being available or accurate for management purposes as timely and accurate as it would be if the financial statements were prepared by the Company and proper controls were in place around account reconciliations. Lack of proper account reconciliations indicates that the Company's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.

Recommendations: The Company should evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed. The Company should also implement controls in which accounts are being properly monitored, reconciled, and reviewed on a regular basis.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: StarCare will continue to address the systemic issues as newly implemented systems are refined and utilized to their capacity. The new infrastructure is in place and has the ability to improve the accounting process. As a result of the FY18 audit, a new senior position was created to oversee the monthly financial process and ensure controls were being followed in order to close each accounting period timely and accurately. This position has been filled and this person is working through the process of evaluating systems, personnel, processes and procedures. Substantial improvement has been made and will continue through FY20. We are confident that significant progress will made in this regard by fiscal year end.

Status: Resolved

Finding 2019-002: Financial Reporting

Criteria: Management of the Company is responsible for establishing appropriate controls surrounding the disbursement process. Uniform Guidance required the Company to update their procurement policy effective September 1, 2018 to include certain items including certain thresholds to procure the acquisition of goods and services. Additionally, Uniform Guidance requires policies to address conflict of interest, including disciplinary actions for failure to adhere, acquisition of duplicative items, and provisions to ensure all solicitations incorporate clear and accurate descriptions of technical requirements, do not restrict completion and identify all requirements which the offeror must fulfill, and factors used in evaluation.

Condition: The Company did not update their policy to incorporate the requirements established by Uniform Guidance.

Cause: Procurement policy was not updated, as required, in a timely manner.

Effect: The Company did not have proper procurement policy during the year and this could potentially lead to the Company entering into disbursement transaction for goods and/or services that are not properly procured as required by law.

Recommendations: It is recommended that the Company updates their procurement policy and include the requirements established by Uniform Guidance. Management's Response: Management agrees with the noted finding.

Status: Resolved

Follow-up on Prior Year Finding: 2018-A, 2018-B, 2018-001 thru 2018-003

Finding 2018-A – Financial Reporting

Criteria: Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP) as well as timely reconciliations of account balances. 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 Company 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. Our audit procedures indicated that the Company lacks proper controls over the closing process which includes reconciliations of accounts and appropriate approval of journal entries. Additionally, we proposed several audit adjustments, including an adjustment to beginning fund balance/net position, to the Company's recorded account balances, which if not detected by our auditing procedures, could have resulted in a material misstatement of the Company's financial statements.

Cause: The Company 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 in a timely and accurate manner.

Effect: The preparation of financial statements and adjusting journal entries as a part of the audit engagement as well as lack of account reconciliations and appropriate approval of journal entries may result in financial statements and related information included in financial statement disclosures not being available or accurate for management purposes as timely and accurate as it would be if the financial statements were prepared by the Company and proper controls were in place around account reconciliations. The need for the audit adjustments indicates that the Company's interim financial information may not be materially correct, which may affect management decisions made during the course of the year.
Recommendation: The Company should evaluate and improve the controls over financial reporting and implement changes as necessary to ensure accurate and timely financial reports can be completed. The Company should also implement controls in which accounts are being properly monitored, reconciled, and reviewed on a regular basis.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: StarCare will address the systemic issues as we continue to implement and refine the new accounting system and the new electronic medical record system. Both of these systems have the ability to make the accounting process more efficient and will therefore allow more time for better controls and review. In addition to new system integration, we will create a new senior accountant position to oversee the monthly financial close process. This position will supervise the staff accountants and that team will be solely responsible for accurate and timely financial statements. When this position is filled and trained, the Associate CFO will have adequate time to completely review and update all relevant financial policies and procedures and follow through with compliance and oversight.

Status: While improvements were noted in current year, the Company has not fully resolved prior year's issues regarding the preparation of the financial statements and account reconciliations.

<u>Finding 2018-B – System Access</u>

Criteria: Management of the Company is responsible for assuring that there are proper system access controls in place. Controls should limit system access and only authorized personnel should have access to the system and they should be able to only perform specific authorized functions.

Condition: The Company does not have an internal control system design to limit system access to personnel as certain personnel have full system access and administrative rights to make system changes. The lack of limited access can result in the loss or misstatement of assets and/or resources.

Cause: The Company does not have proper controls over system access.

Effect: Unlimited system access can lead to personnel having access to all data, including data that might not be considered appropriate.
Unlimited system access can also lead to incorrect data being entered by unauthorized personnel or personnel that lack proper experience. This can lead to inaccurate information or inaccurate internal financial reports generated by management used to make decisions that impact the Company's operations. This could also lead to fraudulent transactions or misappropriation of the Center's assets.

Recommendation: The Company should implement controls around system access and limit access to individuals to have access only to what is considered appropriate. Access should be reviewed on a regular basis in order to assure that access is still appropriate.

Corrective Action Plan: The CFO and the Associate CFO will work directly with the on-site Management Information System (MIS) staff to complete a full fiscal staff audit on all electronic systems used by the fiscal department staff. In this audit, we will identify current access levels, by employee, for each system in use and determine the minimum access required to complete their function. Consideration will be given by position and the expectations based on actual duties performed. Appropriate levels of access will be granted to certain MIS staff so that the MIS staff will be able to manage access levels going forward. Through the audit process, the MIS staff will limit access, by employee, to each system in use based on the minimum levels determined.

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

Status: Resolved

Finding 2018-001 – Significant Deficiency in Internal Control Over Compliance

Criteria: Grant agreement requires that the Company determine, invoice for, and report accurate expenditures that are allowed under the grant agreement.

Condition: The Company had a desk review by HHSC that resulted in the Company re-submitting a quarterly report due to the Company reporting a certain amount on a cash basis. The Company was told to restate the quarterly report and re-submit. We did not have any findings in our disbursement testing.

Cause: The Company had always reported this particular item on a cash basis as they were not aware of any guidance that stated otherwise.
Effect: Quarterly report included inaccurate amounts as the accrual related to claims incurred but not reported (IBNR) was reported on a cash basis rather than accrual basis.

Recommendation: The Company should implement controls that include appropriate review for allowed activities as well as allowable costs prior to submitting information.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: Management understands that through an HHSC desk review it was discovered that a long-standing standard reporting practice was not in line with cost reporting guidance from HHSC. The cost reporting method has been corrected, thus the restatement, and has been updated going forward.

Status: Resolved

Finding 2018-002 – Significant Deficiency in Internal Control Over Compliance

Criteria: Grant agreement requires the Company to determine eligibility for service recipients as well as proper billing for services provided.

Condition: The Company did not have controls in place to ensure that services were provided to eligible individuals and a review that includes review of billing to the individuals who receives the services. While testing controls over eligibility, we noted one instance in which services were billed to an individual that did not receive services.

Cause: The Company does not have proper controls over eligibility and billing.

Effect: Services were billed to an individual that did not receive services.

Recommendation: The Company should implement proper controls over eligibility including billing for services provided.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: The testing performed was from StarCare's legacy system data. That system was replaced with a more robust electronic system on 09/01/18. The new electronic system allows for better, stricter controls designed to prevent services being assigned individuals that do not qualify or did not receive them. The new system also has more strict controls around employee access and their ability to add services in error. Since the start of the new system, the MIS department has worked closely with supervisors to determine proper levels of access by employee. This will be a continual process as we continue to refine the system.

Status: Resolved

<u>Finding 2018-003 – Significant Deficiency in Internal Control Over Compliance</u>

Criteria: Grant agreement requires certain reports to be filed on a quarterly basis in which the Company reports expenditures and revenues for all applicable grants as well as matching requirements.

Condition: The Company did not have controls in place to ensure consistent and accurate review of financial reports for grants. Our audit procedures resulted in multiple instances in which reports were not properly reviewed and, in one instance, the report was not properly prepared as it included inaccurate information.

Cause: The Company does not have proper controls over reporting.

Effect: No formal review of required reports was performed consistently. Fourth quarter Form X, a report required to be filed for the general revenue Inpatient Grant, was selected for testing and it was noted that information was not properly supported as it was not reported correctly. There was a difference in the amounts reported versus the amounts supported. Report was subsequently amended and resubmitted to the State.

Recommendation: The Company should implement proper controls around the reporting process including formal review and approval prior to reports being submitted to the State.

Management's Response: Management agrees with the noted finding. Refer to Corrective Action Plan.

Corrective Action Plan: StarCare will address the systemic issues as we continue to implement and refine the new accounting system. This system has the ability to make the accounting process more efficient and will therefore allow more time for better controls and review. In addition to new system integration, we will create a new senior accountant position to provide support to the Associate CFO. Specifically, this position will assist with external reporting. This will allow for proper review and oversight of data leaving our internal system. When this position is filled, and they have been properly trained, the Associate CFO will have adequate time to completely review and update all relevant financial policies and procedures and follow through with compliance and oversight.

Status: Resolved

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: 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

3.37 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

Independent Auditor's Management Letter: No findings/comments

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: 2018-001

Finding 2018-001 – Procurement Standards – Uniform Guidance

Criteria: Management is responsible for adopting policies and procedures that comply with the Procurement Standards of the Uniform Guidance. The procurement standards prescribed by the Uniform Guidance require written standards of conduct covering conflicts of interest for all employees involved in procurement. The policy must provide for disciplinary actions for violations.

Condition: The Center employees sign a code of conduct policy when hired. The agreement we reviewed did not specifically address conflicts of interest and disciplinary actions for violations.

Cause: The procurement standards prescribed by the Uniform Guidance were effective for the first time in FY 2018. As a result, compliance with this requirement is new to community centers.

Effect: The Center is not in full compliance with the procurement standards specified by the Uniform Guidance.

Recommendation: We recommend that the Center develops a conflicts of interest policy which incorporates language prescribed by the Uniform Guidance related to conflicts of interest and that all employees involved in procurement sign the policy.

Management's Response: Management agrees with the noted finding. Management will adopt and implement a conflict of interest policy in line with the Procurement Standards of the Uniform Guidance on or before August 31, 2019. The policy will provide for disciplinary actions for violations.

Corrective Action Plan: Management agrees with the noted finding. Management will adopt and implement a conflict of interest policy in line with the Procurement Standards of the Uniform Guidance on or before August 31, 2019. The policy will provide for disciplinary actions for violations.

Status: Resolved

3. 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
DBA	Doing Business As
ECI	Early Childhood Intervention
FEMA	Federal Emergency Management Agency
FLSA	Fair Labor Standards Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
HCMHDDC	Hill Country Mental Health & Developmental Disabilities Center
HHSC	Health and Human Services Commission
IDD	Intellectual and Developmental Disabilities
IBNR	Incurred but Not Reported
ISP	Immediate Services Program
LMHA	Local Mental Health Authority
LBHA	Local Behavioral Health Authority
MAC	Medicaid Administrative Claiming
MIS	Management Information System

Acronym	Full Name
SAU	Single Audit Unit
SEFSA	Schedule of Expenditures of Federal and State Awards
UGMS	Uniform Grant Management Standards