



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Thurston Mason Behavioral Health Organization

For the period January 1, 2017 through December 31, 2017

Published August 19, 2021

Report No. 1028927



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**Office of the Washington State Auditor
Pat McCarthy**

August 19, 2021

Board of Directors
Thurston Mason Behavioral Health Organization
Lacey, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Thurston Mason Behavioral Health Organization's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Organization's financial condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Schedule of Audit Findings and Responses.....	6
Schedule of Federal Award Findings and Questioned Costs.....	10
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	20
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	23
Independent Auditor's Report on the Financial Statements	26
Financial Section.....	30
Corrective Action Plan for Findings Reported Under Uniform Guidance	39
About the State Auditor's Office.....	42

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the Thurston Mason Behavioral Health Organization are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the Organization’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Organization.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Organization’s compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Organization did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2017-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Findings 2017-002 and 2017-003.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

2017-001 The Organization lacked adequate internal controls for ensuring accurate and timely accounting and financial reporting.

Background

The *Budgeting, Accounting, and Reporting System* (BARS) manual requires governments to document — at least monthly — a global bank reconciliation of both cash activity and ending cash balances. When the County acts as the Treasurer for entities, they are expected to use County Treasurer statements for their reconciliation.

Thurston Mason Behavioral Health Organization registered with the Office of the Secretary of State as a new entity on October 1, 2017. Before this, the Organization operated under Thurston County. The State Auditor's Office has been required to audit the Organization since it became an entity in 2017. State law requires every local government file annual financial reports with our office within 150 days of the end of each fiscal year. As part of the report, all local governments that spend federal funds must prepare a Schedule of Expenditures of Federal Awards (SEFA). Local governments that spend \$750,000 or more in federal funds must receive a federal single audit.

Government Accounting Standards requires our office to communicate material weaknesses in internal controls as a finding.

Description of Condition

The Organization did not complete or keep documentation of monthly bank reconciliations between its general ledger and the County Treasurer statements. We consider this deficiency in internal controls over accounting and financial reporting to be a material weakness.

Additionally, the Organization submitted its annual financial reports to our office 445 days after the statutory deadline.

Cause of Condition

The Organization was not recognized as a government entity needing financial statements audited until October 1, 2017. This was the first time the Organization was required to submit annual financial reports. Additionally, the Organization was

transitioning records that had been maintained on a Generally Accepted Accounting Principles basis into BARS Cash basis method. As a result, the Organization was not aware of the requirement to complete monthly bank reconciliations in 2017, and it did not start receiving County Treasurer reports for reconciliation until 2018. Further, the Organization did not dedicate adequate time and resources for completing its annual financial reports, including financial statements, until after the 2017 deadline.

Effect of Condition

The Organization did not follow the BARS manual's requirement for completing monthly bank reconciliations. Without this internal control, the Organization cannot ensure it can identify errors, and it hinders the Organization's ability to provide decision makers, stakeholders and interested parties with accurate and complete financial information. During our audit, the Organization gave our office the necessary support for verifying the accuracy of the amounts reported in its financial statements.

The Organization did not comply with state law requiring timely submission of annual financial reports. As a result, the Organization did not obtain a federal grant compliance audit and submit the resulting audit report to the federal government by the federal audit deadline, which could jeopardize future federal funding. Further, late filings prevent Organization officials, the public and other interested parties from attaining timely and transparent financial information. These delays also hinder our office's efforts to compile statistical and financial information for the Legislature and others.

Recommendation

We recommend the Organization establish internal controls for ensuring it completes, supports, and makes available monthly bank reconciliations, and that it submits annual financial reports by the statutory deadline.

Organization's Response

Thurston-Mason Behavioral Health (TMBHO) recognizes the importance of accurate and timely accounting and financial reporting and does not dispute this finding. We appreciate the recommendations from the State Auditor's Office.

TMBHO was established by interlocal agreement between Thurston County and Mason County in 2015 and began operating as a BHO in October of 2016. TMBHO first sought guidance from the Washington State Secretary of State and the State Auditor's Office regarding the filing of financial reports as a governmental entity in 2016. In early 2017 the BHO learned that the Auditor's

Office required the BHO to be registered as either a Non-Profit Agency or an LLC to be recognized as a separate legal entity to begin financial reporting to the State Auditor. The BHO chose to form an LLC and was recognized as a separate legal entity in October of 2017. Upon receiving guidance on filing from the State Auditor's Office TMBHO employed the help of an outside accounting firm to compile the financial reports for 2016, 2017, and 2018. The process to prepare and submit the financial reporting took much longer to complete than anticipated due in part to the following obstacles:

- *New entity, never having filed before*
- *Time constraints to work on the project during a period of transition*
- *Converting county financial data from accrual to cash basis accounting*
- *No longer having access to the county's accounting system (Munis) as TMBHO had implemented a separate accounting system effective January 2018.*

Prior to 2018, monthly bank statements were handled by the Thurston County Financial Services office for Thurston County Public Health and 2017 monthly statements for Thurston-Mason Behavioral Health (TMBHO) were not set apart or made available to the TMBHO staff.

TMBHO has already put into practice the process of reconciling the general ledger to monthly bank statements on a regular basis and keeps all documentation for financial reporting and auditing purposes. Having now gone through the reporting and auditing process we have a better understanding of the requirements and have pursued the training opportunities and resources made available to us through the State Auditor's Office. Our organization commits to securing the resources and time to meet financial reporting timelines with accuracy.

Auditor's Remarks

We appreciate the Organization's commitment to resolve this finding and thank the Organization for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

Applicable Laws and Regulations

RCW 43.09.230 Local government accounting – Annual reports – comparative statistics

Budgeting, Accounting, and Reporting System (BARS) manual 3.1.9 – Bank reconciliations

Budgeting, Accounting, and Reporting System (BARS) manual 3.1.3.20 – Internal controls

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), section 501, Audit requirements.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

2017-002 The Organization's internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.

CFDA Number and Title:	93.959 – Block Grants for Prevention and Treatment of Substance Abuse
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Health and Social Services
Pass-through Award/Contract Number:	1669-58054
Questioned Cost Amount:	\$0

Background

The Substance Abuse Prevention and Treatment Block Grant (SABG) program awards funds to states, territories and one Indian tribe for planning, implementing and evaluating activities that prevent and treat substance abuse. During fiscal year 2017, the Organization spent \$1,317,836 in SABG funds. The Organization passed through \$598,980 of these funds to seven subrecipients. Fiscal year 2017 was the Organization's first year of operation, and this is its first federal grant compliance audit.

Federal regulations require grant recipients to establish and follow internal controls for ensuring compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Description of Condition

Suspension and Debarment

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The Organization must verify a subrecipient is not suspended or debarred or otherwise excluded before awarding funds. The Organization can verify a subrecipient's eligibility in one of two ways. First, the Organization can obtain written certification from the subrecipient, or it can insert a clause into the contract stating the subrecipient is not suspended or debarred. Second, the Organization may review the U.S. General Services Administration's Excluded Parties List System (EPLS) to confirm the subrecipient's eligibility. The Organization must meet one of these requirements before subawarding federal funds, and it must keep documentation showing it performed this verification.

The Organization did not ensure it consistently followed internal controls for verifying one of its seven subrecipients was not suspended or debarred before contracting.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Subrecipient Monitoring

When federal grant recipients pass through funds to subrecipients, recipients must clearly identify the federal award and applicable requirements within the subrecipient agreement. Further, the recipient must evaluate the subrecipient's risk of noncompliance with federal requirements to determine the appropriate level of subrecipient monitoring. Monitoring requirements include ensuring compliance with program requirements, ensuring subrecipients receive audits when required, following up and ensuring subrecipients take timely and appropriate action on all audit findings, and issuing management decisions as required.

The Organization lacked effective controls for complying with subrecipient monitoring requirements. All four of the subrecipient agreements we tested did not include the following required elements:

- Federal Award Identification Number (FAIN)
- Federal award date
- Indirect cost rate for the Federal award

Additionally, the Organization did not complete risk assessments or monitor program compliance for all four of the subrecipients we tested. The Organization also did not complete the following for three of the subrecipients we tested:

- Verify subrecipients received single audits, if required
- Follow up on corrective actions taken for any identified deficiencies
- Issue management decisions within six months of audit report issuance for applicable audit findings

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Cause of Condition

The Organization did not dedicate the necessary time and resources for ensuring staff responsible for administering these grants fully understood and could implement controls for complying with related grant requirements.

Effect of Condition and Questioned Costs

Suspension and Debarment

Without performing this verification, the Organization increases its risk of awarding federal funds to subrecipients who are excluded from participating in federal programs. Any payments the Organization made to an ineligible party would be unallowable, and the U.S. Department of Health and Human Services could recover these funds. During our audit, we confirmed the subrecipient was not suspended or debarred. Therefore, we are not questioning costs.

Subrecipient Monitoring

Without including all required elements in its agreements, performing risk assessments, or adequately monitoring subrecipients, the Organization increases its risk that subrecipients would not know of or not comply with program requirements. Additionally, subrecipients may spend funds for unallowable purposes.

Recommendation

We recommend the Organization improve its internal controls for ensuring:

- Subrecipients are not suspended or debarred from doing business with the federal government before awarding them federal funds.
- Subrecipients comply with program requirements by including all required elements in agreements, performing risk assessments, and monitoring subrecipients according to the risk they pose.

Organization's Response

Thurston-Mason Behavioral Health Organization (TMBHO) appreciates the recommendations and guidance from the State Auditor's Office and concurs with the finding.

During the transition from a Regional Support Network (RSN) to Behavioral Health Organization (BHO), then BHO to an Administrative Service Organization (ASO), fiscal monitoring of all subrecipients were not adequately completed due to limited knowledge of the requirements, time constraints and the learning curve for new staff.

TMBHO plans to conduct yearly verification checks for each contracted provider who receives federal block grant funds to check for suspension and debarment. All contracts will be amended or newly issued with the required contract elements and subrecipient monitoring schedules have been established and contract monitoring has already begun.

Auditor's Remarks

We appreciate the Organization's commitment to resolve this finding and thank the Organization for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 180, OMB, *Guidelines to Agencies on Government wide Debarment and Suspension (Nonprocurement)* establishes non-procurement debarment and suspension regulations, implementing Executive Orders 12549 and 12689.

Title 45 CFR Part 75, OMB, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards* establishes subrecipient monitoring regulations.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

2017-003 The Organization's internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.

CFDA Number and Title:	93.958 – Block Grants for Community Mental Health Services
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Health and Social Services
Pass-through Award/Contract Number:	1669-57892, 1769-94486, and 1769- 96825
Questioned Cost Amount:	\$0

Background

The Community Mental Health Services Block Grant (MHBG) program awards funds to states and territories to implement plans for providing comprehensive, community-based mental health services for adults with serious mental illness and children with serious emotional disturbances. To ensure creative and cost effective delivery of services, states are encouraged to develop solutions for the specific mental health concerns of their local communities. During fiscal year 2017, the Organization spent \$873,196 in MHBG funds. The Organization passed through \$290,031 of these funds to six subrecipients. Fiscal year 2017 was the Organization's first year of operation, and this is its first federal grant compliance audit.

Federal regulations require grant recipients to establish and follow internal controls for ensuring compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Description of Condition

Suspension and Debarment

Federal grant regulations prohibit recipients from contracting with or making subawards to parties suspended or debarred from doing business with the federal government. The Organization must verify a subrecipient is not suspended or debarred or otherwise excluded before awarding funds. The Organization can verify a subrecipient's eligibility in one of two ways. First, the Organization can obtain written certification from the subrecipient, or it can insert a clause into the contract stating the subrecipient is not suspended or debarred. Second, the Organization may review the U.S. General Services Administration's Excluded Parties List System (EPLS) to confirm the subrecipient's eligibility. The Organization must meet one of these requirements before subawarding federal funds, and it must keep documentation showing it performed this verification.

The Organization did not ensure it consistently followed internal controls for verifying three of its six subrecipients were not suspended or debarred before contracting.

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Subrecipient Monitoring

When federal grant recipients pass through funds to subrecipients, recipients must clearly identify the federal award and applicable requirements within the subrecipient agreement. Further, the recipient must evaluate the subrecipient's risk of noncompliance with federal requirements to determine the appropriate level of subrecipient monitoring. Monitoring requirements include ensuring compliance with program requirements, ensuring subrecipients receive audits when required, following up and ensuring subrecipients take timely and appropriate action on all audit findings, and issuing management decisions as required.

The Organization lacked effective controls for complying with subrecipient monitoring requirements. All four of the subrecipient agreements we tested did not include the following required elements:

- Federal Award Identification Number (FAIN)
- Federal award date
- Indirect cost rate for the federal award

Additionally, for these subrecipients, the Organization did not:

- Complete risk assessments or monitor program compliance
- Verify the subrecipients received single audits, if required
- Follow up on corrective actions taken for any identified deficiencies
- Issue management decisions within six months of audit report issuance for applicable audit findings

We consider this deficiency in internal controls to be a material weakness that led to material noncompliance.

Cause of Condition

The Organization did not dedicate the necessary time and resources for ensuring staff responsible for administering these grants fully understood and could implement controls for complying with related grant requirements.

Effect of Condition and Questioned Costs

Suspension and Debarment

Without performing this verification, the Organization increases its risk of awarding federal funds to subrecipients who are excluded from participating in federal programs. Any payments the Organization made to an ineligible party would be unallowable, and the U.S. Department of Health and Human Services could recover these funds. During our audit, we confirmed two of the three subrecipients were not suspended or debarred. However, we could not verify the status of the third subrecipient, which the Organization paid \$19,230 in fiscal year 2017.

Subrecipient Monitoring

Without including all required elements in its agreements, performing risk assessments, or adequately monitoring subrecipients, the Organization increases its risk that subrecipients would not know of or comply with program requirements. Additionally, subrecipients may spend funds for unallowable purposes.

Recommendation

We recommend the Organization improve its internal controls for ensuring:

- Subrecipients are not suspended or debarred from doing business with the federal government before awarding them federal funds.

- Subrecipients comply with program requirements by including all required elements in agreements, performing risk assessments, and monitoring subrecipients according to the risk they pose.

Organization's Response

Thurston-Mason Behavioral Health Organization (TMBHO) appreciates the recommendations and guidance from the State Auditor's Office and concurs with the finding.

During the transition from a Regional Support Network (RSN) to Behavioral Health Organization (BHO), then BHO to an Administrative Service Organization (ASO), fiscal monitoring of all subrecipients were not adequately completed due to limited knowledge of the requirements, time constraints and the learning curve for new staff.

TMBHO plans to conduct yearly verification checks for each contracted provider who receives federal block grant funds to check for suspension and debarment. All contracts will be amended or newly issued with the required contract elements and subrecipient monitoring schedules have been established and contract monitoring has already begun.

Auditor's Remarks

We appreciate the Organization's commitment to resolve this finding and thank the Organization for its cooperation and assistance during the audit. We will review the corrective action taken during our next regularly scheduled audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 180, OMB, *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)* establishes non-procurement

debarment and suspension regulations, implementing Executive Orders 12549 and 12689.

Title 45 CFR Part 75, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards*, section 352, Requirements for pass-through entities, establishes subrecipient monitoring regulations.

INDEPENDENT AUDITOR'S REPORT

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

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

Board of Directors
Thurston Mason Behavioral Health Organization
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Thurston Mason Behavioral Health Organization, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated August 11, 2021.

We issued an unmodified opinion on the fair presentation of the Organization's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Organization using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 8 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect impact on the Organization is unknown.

As discussed in Note 7 to the financial statements, the Organization transitioned to a new entity as of January 1, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

ORGANIZATION'S RESPONSE TO FINDINGS

The Organization's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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Pat McCarthy, State Auditor

Olympia, WA

August 11, 2021

INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

Board of Directors
Thurston Mason Behavioral Health Organization
Lacey, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Thurston Mason Behavioral Health Organization, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to these matters.

Organization's Response to Findings

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal*

control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Findings 2017-002 and 2017-003, that we consider to be material weaknesses.

Organization's Response to Findings

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

August 11, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

Board of Directors
Thurston Mason Behavioral Health Organization
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Thurston Mason Behavioral Health Organization, for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, as listed on page 30.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Thurston Mason Behavioral Health Organization has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Thurston Mason Behavioral Health Organization, and its changes in cash and investments, for the year ended December 31, 2017, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Organization used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Thurston Mason Behavioral Health Organization, as of December 31, 2017, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 8 to the financial statements, the full extent of the COVID-19 pandemic’s direct or indirect impact on the Organization is unknown. Our opinion is not modified with respect to this matter.

As discussed in Note 7 to the financial statements, the Organization transitioned to a new entity as of January 1, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2021 on our consideration of the Organization’s internal control over financial

reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

August 11, 2021

FINANCIAL SECTION

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017
Schedule of Expenditures of Federal Awards – 2017
Notes to the Schedule of Expenditures of Federal Awards – 2017

Thurston Mason Behavioral Health Organization
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

Beginning Cash and Investments

30810	Reserved	-
30880	Unreserved	45,774,731
388 / 588	Prior Period Adjustments, Net	-

Revenues

310	Taxes	59,140
320	Licenses and Permits	-
330	Intergovernmental Revenues	60,446,239
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	510,412
Total Revenues:		<u>61,015,791</u>

Expenditures

550	Natural and Economic Environment	-
560	Social Services	52,666,575
Total Expenditures:		<u>52,666,575</u>
Excess (Deficiency) Revenues over Expenditures:		<u>8,349,216</u>

Other Increases in Fund Resources

391-393, 596	Debt Proceeds	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<u>-</u>

Other Decreases in Fund Resources

594-595	Capital Expenditures	296,515
591-593, 599	Debt Service	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
Total Other Decreases in Fund Resources:		<u>296,515</u>

Increase (Decrease) in Cash and Investments: **8,052,701**

Ending Cash and Investments

5081000	Reserved	-
5088000	Unreserved	53,827,432
Total Ending Cash and Investments		<u>53,827,432</u>

The accompanying notes are an integral part of this statement.

THURSTON MASON BEHAVIORAL HEALTH ORGANIZATION, LLC

Notes to Financial Statements For the Years Ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

Thurston Mason Behavioral Health Organization, LLC, LLC (TMBHO) is a multi-county “quasi-governmental” association of Thurston and Mason Counties (the Counties) created by the TMBHO Interlocal Agreement (the Agreement) executed on September 15, 2015. This agreement is a joint operating agreement among the Counties to operate and to undertake the responsibilities of a behavioral health organization, including the development of regional mental health services and the availability of treatment components.

TMBHO does not have any component units.

TMBHO reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor’s Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

Financial transactions are recognized on a cash basis of accounting as described below:

- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The Schedules of Revenues/Expenditures/Expenses, Liabilities, Expenditures of State Financial Assistance, Expenditures of Federal Awards are required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

Fund Accounting - Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government’s resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. For year ended December 31, 2017, TMBHO only has one government fund type, a general fund.

General Fund - This fund is TMBHO’s primary operating fund. It is used to account for all activities except those required or elected to be accounted for in another fund.

Basis of Accounting and Measurement Focus - Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

Budgets - TMBHO adopts an annual appropriated budget for the general fund. This budget is appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

THURSTON MASON BEHAVIORAL HEALTH ORGANIZATION, LLC

Notes to Financial Statements For the Years Ended December 31, 2017

Note 1 - Continued

The appropriated and actual expenditures for the legally adopted budget was as follows:

Fund	Appropriated	Expended	Variance
General Expense 001	<u>\$ 68,467,017</u>	<u>\$ 52,963,090</u>	<u>\$ 15,503,927</u>

Cash and Investments - See Note 2, Deposits and Investments.

Capital Assets - TMBHO does not expend funds for capital assets and therefore has not established a capital asset policy.

Compensated Absences - Paid time off may be accumulated up to 320 hours and is payable upon separation or retirement. Sick leave is accumulated for any amounts of paid time off accrued for in excess of the paid time off cap. Upon separation or retirement employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

Note 2 - Deposits and Investments

TMBHO utilizes the services of the Thurston County Treasurer. All deposits are invested in the Thurston County Investment Pool (TCIP). The TCIP operates on an amortized cost-book value basis and reports on a fair value basis. Authorized investments for the TCIP are the same as investments held outside of the pool. Investments are governed by State statute and County investment policy. All investment instruments are those allowed by statute include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, municipal bonds, money market account and the State Treasurer's Local Government Investment Pool (LGIP). The LGIP is reported at amortized cost. All funds deposited in the TCIP are available to the participant at full face value without regard to current market values of the investment pool. Earnings distributions, including any realized transactions in the pool, are distributed monthly, calculated on the average daily balance of the participant's cash balances. Fair market value of the TCIP is reviewed by the County Treasurer, on a monthly basis, and quarterly by the County Finance Committee. Fair value is determined using information from "FinSer", a financial services reporting provider. Cash and investments are held in the general fund and reported at fair value which totaled \$53,827,432 at December 31, 2017.

Note 3 - Property Tax

The Thurston County and Mason County Treasurers act as agents to collect property tax levied in the Counties for all taxing authorities. Collections are distributed at the end of each month.

Property tax revenues are recognized when cash is received by TMBHO. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

THURSTON MASON BEHAVIORAL HEALTH ORGANIZATION, LLC

Notes to Financial Statements For the Years Ended December 31, 2017

Note 4 - Pension Plans

Substantially all TMBHO's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit retirement plan: Public Employees' Retirement System Plan 2/3.

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2017 (the measurement date of the pension plans), TMBHO's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 2/3	<u>\$ 108,559</u>	<u>0.00124%</u>	<u>\$ 42,996</u>

Note 5 - Post Retirement Medical Benefit Plan

TMBHO is a participating employer in the state's Public Employees Benefits Board (PEBB) program, a defined benefit plan administered by the Washington State Health Care Authority. The plan provides medical, dental, and life insurance benefits for public employees and retirees and their dependents on a pay-as-you-go basis. The plan provides OPEB benefits through both explicit and implicit subsidies. The explicit subsidy is a set dollar amount that lowers the monthly premium paid by members over the age of 65 enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The implicit subsidy results from the inclusion of active and non-Medicare eligible retirees in the same pool when determining premiums. There is an implicit subsidy from active employees since the premiums paid by retirees are lower than they would have been if the retirees were insured separately. TMBHO had 24 active plan members and 0 retired plan members as of December 31, 2017. TMBHO contributed \$13,103 to the plan for the year ended December 31, 2017.

Note 6 - Risk Management

TMBHO is covered for property and liability risks through the purchase of private insurance.

THURSTON MASON BEHAVIORAL HEALTH ORGANIZATION, LLC

Notes to Financial Statements For the Years Ended December 31, 2017

Note 7- Subsequent Events

Thurston-Mason Behavioral Health Organization, LLC (TMBHO) was formed by an interlocal-agreement pursuant to RCW 71.24.30 and operates as the Thurston Mason Behavioral Health Administrative Service Organization for the Thurston-Mason two-county Regional Service Area (RSA) effect January 1, 2020.

Administrative Service Organizations were created by legislative action to administer the integrated behavioral health system in Washington State for Non-Medicaid funded services, redirecting the previously contracted Medicaid funds that flowed through the BHO's to Medicaid Managed Care Organizations operating in our state.

The ASO's primary revenue is now State funds directly contracted to us from The Health Care Authority with secondary revenue being Medicaid funding specifically from the Managed Care Organizations in our region to administer crisis services.

This legislative change had a very large impact on the overall revenue and expenditures of the organization that will be seen in the financial statements from 2019 to 2020.

Note 8- COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.

Thurston-Mason BHO, LCC qualified as an essential organization under the Governor's orders and continued to provide all functions and services while adhering to the measures put into place to slow the spread of the virus. We were able to establish the ability to telework for many employees with a rotation of leadership staff being in the office to be sure that business was carried out as usual. Direct service staff whose positions required them to be on site or provide services in the community had established protocols for doing so and were compensated at a higher rate of pay during the early stages of the pandemic. Increased expenses for payroll, equipment, telehealth, virtual meeting platforms, PPE and cleaning supplies have been incurred and ongoing. An estimated \$80,000 of additional expense was incurred from March of 2020 through December 31, 2020. The actual or potential financial and/or operational impact on TMBHO appears to be minimal and able to be absorbed within allocated resources at this time.

TMBHO is currently evaluating a continue to work from home or return to work plan as the State Mandates change and are lifted. The length the measures will be in place and the full extent of the financial impact on TMBHO is unknown as the pandemic continues.

Thurston Mason Behavioral Health Organization
Schedule of Liabilities
For the Year Ended December 31, 2017

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated absences		-	132,155	-	132,155
264.30	Pension liabilities		-	42,996	-	42,996
	Total Revenue and Other (non G.O.) Debt/Liabilities:		-	175,151	-	175,151
	Total Liabilities:		-	175,151	-	175,151

**Thurston Mason Behavioral Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health and Social Services)	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1669-60595, 1669-75298, 1769-15583, K3145	102,116	-	102,116	102,116	2
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health and Social Services)	Opioid STR	93.788	1769-97725	21,100	-	21,100	21,100	2
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health and Social Services)	Block Grants for Community Mental Health Services	93.958	1669-57892, 1769-94486, 1769-96825	873,196	-	873,196	873,196	2
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via Washington State Department of Health and Social Services)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1669-58054	1,317,836	-	1,317,836	1,317,836	2
Total Federal Awards Expended:				2,314,248	-	2,314,248	2,314,248	

THURSTON MASON BEHAVIORAL HEALTH ORGANIZATION, LLC

**Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017**

Note 1 - Basis of Presentation

This schedule is prepared on the same basis of accounting as THMBHO's financial statements. TMBHO reports financial activity in accordance with the uses the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The amounts shown as current year expenditures represent only the federal grant portion of the program costs, entire program costs, including TMBHO's portion, are more than shown. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Note 2 - Indirect Cost Rate

TMBHO has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. TMBHO does not claim indirect cost.



GOVERNING BOARD
 Kevin Shutty, Commissioner
 Mason County District Two
 Tye Menser, Commissioner
 Thurston County District Three
 Gary Edwards, Commissioner
 Thurston County District Two

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Thurston Mason Behavioral Health Organization January 1, 2017 through December 31, 2017

This schedule presents the corrective action planned by the Organization for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2017-001	Finding caption: The Organization lacked adequate internal controls for ensuring accurate and timely accounting and financial reporting.
Name, address, and telephone of Organization contact person: Tara Smith, CFO 612 Woodland Square Loop S.E. Lacey, WA 98503 (360) 763-5809	
<i>Corrective action the auditee plans to take in response to the finding:</i> <i>Thurston-Mason Behavioral Health (TMBHO) recognizes the importance of accurate and timely accounting and financial reporting and does not dispute this finding. We appreciate the recommendations from the State Auditor's Office.</i> <i>TMBHO was established by interlocal agreement between Thurston County and Mason County in 2015 and began operating as a BHO in October of 2016. TMBHO first sought guidance from the Washington State Secretary of State and the State Auditor's Office regarding the filing of financial reports as a governmental entity in 2016. In early 2017 the BHO learned that the Auditor's Office required the BHO to be registered as either a Non-Profit Agency or an LLC</i>	

to be recognized as a separate legal entity to begin financial reporting to the State Auditor. The BHO chose to form an LLC and was recognized as a separate legal entity in October of 2017. Upon receiving guidance on filing from the State Auditor's Office TMBHO employed the help of an outside accounting firm to compile the financial reports for 2016, 2017, and 2018. The process to prepare and submit the financial reporting took much longer to complete than anticipated due in part to the following obstacles:

- *New entity, never having filed before*
- *Time constraints to work on the project during a period of transition*
- *Converting county financial data from accrual to cash basis accounting*
- *No longer having access to the county's accounting system (Munis) as TMBHO had implemented a separate accounting system effective January 2018.*

Prior to 2018, monthly bank statements were handled by the Thurston County Financial Services office for Thurston County Public Health and 2017 monthly statements for Thurston-Mason Behavioral Health (TMBHO) were not set apart or made available to the TMBHO staff. TMBHO has already put into practice the process of reconciling the general ledger to monthly bank statements on a regular basis and keeps all documentation for financial reporting and auditing purposes. Having now gone through the reporting and auditing process we have a better understanding of the requirements and have pursued the training opportunities and resources made available to us through the State Auditor's Office. Our organization commits to securing the resources and time to meet financial reporting timelines with accuracy.

Anticipated date to complete the corrective action: January 1, 2022

Finding ref number: 2017-002	Finding caption: The Organization's internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.
Name, address, and telephone of Organization contact person: Tara Smith, CFO 612 Woodland Square Loop S.E. Lacey, WA 98503 (360) 763-5809	
Corrective action the auditee plans to take in response to the finding: <i>Thurston-Mason Behavioral Health Organization (TMBHO) appreciates the recommendations and guidance from the State Auditor's Office and concurs with the finding.</i>	

During the transition from a Regional Support Network (RSN) to Behavioral Health Organization (BHO), then BHO to an Administrative Service Organization (ASO), fiscal monitoring of all subrecipients were not adequately completed due to limited knowledge of the requirements, time constraints and the learning curve for new staff.

TMBHO plans to conduct yearly verification checks for each contracted provider who receives federal block grant funds to check for suspension and debarment. All contracts will be amended or newly issued with the required contract elements and subrecipient monitoring schedules have been established and contract monitoring has already begun.

Anticipated date to complete the corrective action: January 1, 2022

Finding ref number: 2017-003	Finding caption: The Organization's internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.
--	---

Name, address, and telephone of Organization contact person:

Tara Smith, CFO
612 Woodland Square Loop S.E.
Lacey, WA 98503
(360) 763-5809

Corrective action the auditee plans to take in response to the finding:

Thurston-Mason Behavioral Health Organization (TMBHO) appreciates the recommendations and guidance from the State Auditor's Office and concurs with the finding.

During the transition from a Regional Support Network (RSN) to Behavioral Health Organization (BHO), then BHO to an Administrative Service Organization (ASO), fiscal monitoring of all subrecipients were not adequately completed due to limited knowledge of the requirements, time constraints and the learning curve for new staff.

TMBHO plans to conduct yearly verification checks for each contracted provider who receives federal block grant funds to check for suspension and debarment. All contracts will be amended or newly issued with the required contract elements and subrecipient monitoring schedules have been established and contract monitoring has already begun.

Anticipated date to complete the corrective action: January 1, 2022

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov