



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, 2019 through December 31, 2019**

*Published June 8, 2023*

Report No. 1032731



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

June 8, 2023

Board of Commissioners  
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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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2019

#### 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>ALN</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 2019-001.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See Finding 2019-002.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2019

#### **2019-001 The Organization lacked adequate internal controls for ensuring compliance with state law requiring timely annual report submissions.**

##### *Background*

Federal and state agencies, the Board of Commissioners, and the public rely on the information included in financial statements and reports to make decisions. Thurston Mason Behavioral Health Organization is responsible for designing, implementing and maintaining internal controls that provide reasonable assurance its financial reporting is reliable.

The 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 its own entity in 2017. State law (RCW 43.09.230) requires the Organization to submit an annual financial report to our Office within 150 days after the end of its fiscal year. The annual financial report includes summaries of financial information and supporting schedules.

##### *Description of Condition*

The Organization did not submit the required annual reports to our Office within 150 days of fiscal year-end for 2019. The Organization filed its 2019 annual reports 686 days late.

This issue was reported as a finding in the prior two audits.

##### *Cause of Condition*

The 2017 and 2018 financial statements were the first set of annual reports the Organization was required to submit to our Office. Additionally, the Organization was still in the process of transitioning records that had been maintained under generally accepted accounting principles to the cash basis accounting method prescribed by the *Budgeting, Accounting and Reporting System* (BARS) Manual. As a result, the Organization did not dedicate adequate time and resources for completing its annual reports, including financial statements, until after the 2019 filing deadline.

## ***Effect of Condition***

The Organization did not comply with state law requiring timely submissions of annual financial reports. As a result, the Organization did not obtain a federal grant compliance audit and submit the resulting report to the federal government by the 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 other parties.

## ***Recommendation***

We recommend the Organization establish internal controls to ensure timely financial reporting in accordance with state law.

## ***Organization's Response***

*Thurston Mason Behavioral Health Organization agrees with finding 2019-001 regarding the Organization's lack of adequate internal controls for ensuring compliance with state law requiring timely annual report submission having submitted the 2019 annual report 686 days late.*

*We understand and recognize the importance of providing information that is timely and accurate to ensure transparency in government and have put ourselves in a difficult position by becoming so tardy in reporting.*

*There had been a steep learning curve for fiscal staff in our organization in learning the requirements for reporting as a Government Agency that have been bridged through additional training and technical assistance from the SAO's office and other outside resources. The full transition from GAAP to Cash basis reporting was completed in 2019 and our fiscal team has been in consistent communication with the State Auditor's Office regarding our timeline for filing our subsequent reports so that audits can be completed.*

*The Organization has continued to put forth time and effort to receive training, conduct planning, prepare, review, and submit annual reports to the State Auditor for reporting years 2020, 2021 and 2022 and is committed to being in full compliance. The annual report for 2020 was submitted on May 12, 2023, and a commitment to the Auditor's Office has been made to submit the 2021 annual report in August 2023. Our organization anticipates it will take until the end of calendar 2023 to complete the Annual Reporting Requirements for fiscal year 2022.*

*The Executive Leadership Team and the Governing Board members for our organization continue to be briefed on the progress and outcome of the audits completed and in process. We appreciate the partnership with the SAO and technical assistance.*

### ***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 4.1.6, Reporting Requirements and Filing Instructions for Special Purpose Districts.*

*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, 2019 through December 31, 2019

#### **2019-002    The Organization's internal controls were inadequate for ensuring compliance with subrecipient monitoring requirements.**

**Assistance Listing Numbers and Titles:** 93.958 – Block Grants for  
Community Mental Health Services  
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  
Social and Health Services

**Pass-through Award/Contract  
Number:** 41401, 41402, 41403, 41601

**Known 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 2019, the Organization spent \$728,968 in MHBG funds. The Organization passed through \$442,313 of these funds to six subrecipients.

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 2019, the Organization spent \$973,545 in SABG funds. The Organization passed through \$441,776 of these funds to six subrecipients.

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

### *Description of Condition*

When grant recipients pass through federal funds to subrecipients, 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 audit findings that relate to the federal awards it makes to its subrecipients, and issuing management decisions as required.

Our audit found the Organization lacked effective controls for complying with subrecipient monitoring requirements. We tested the Organization's monitoring of seven of its subrecipients and determined it 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 related to the federal awards it made to its subrecipients
- 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.

This issue was reported as findings in the previous audit as finding 2018-002 and finding 2018-003.

### *Cause of Condition*

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

### *Effect of Condition*

Without 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 by performing risk assessments and monitoring subrecipients accordingly to ensure they comply with federal program requirements.

### *Organization's Response*

*Thurston Mason Behavioral Health Organization agrees with finding 2019-002 regarding the Organization's lack of adequate internal controls for ensuring compliance with subrecipient monitoring requirements.*

*We understand and recognize the importance of subrecipient monitoring to ensure that subrecipients are following federal requirements for use of federal block grant funds for both Block Grants for Community Mental health Services 93.958 and Block Grants for Prevention and Treatment of Substance Abuse 93.959.*

*It is noted in the description of condition for this finding that it was an audit finding in 2018 as well. Due to the timing of the completion and issuance of the 2018 findings at the Exit Conference in August of 2021 there was not an opportunity to complete corrective actions for the 2019 period.*

*Following the issuance of the findings from the 2018 audit our organization has had key fiscal staff attended Federal Block Grant training and have reviewed the federal funding requirement language passed down in the contracts issued to us by the Health Care Authority with our awards:*

*To ensure that subrecipient monitoring requirements are met the Finance Director has developed a tracking tool that is currently in use that includes the following:*

- Identified subrecipients*
- Period of award*
- Fiscal staff assigned to conduct risk assessment and monitoring follow up*
- Risk assessment completion date,*
- Monitoring schedule, status, and completion date*
- Verification of single audits being received, if required*

- Issuance of corrective action taken if needed and
- Issuance of management decisions within six months of audit report issuance for applicable audit findings

*The tool is actively being used by the fiscal team to ensure that all activities are completed in a timely manner. The status of the activities is discussed with assigned staff at periodic fiscal team meetings and all items are reviewed by the Finance Director prior to an item being marked as completed.*

*For SFY21, seven of the eight identified sub-recipients have had a risk assessment completed. One risk assessment is still in process. For the same review period, six of the eight sub-recipient monitoring's have been completed. There is one provider monitoring that is scheduled to be completed this week and the last provider monitoring is scheduled to be completed by the end of March 2022.*

*The risk scores and monitoring outcomes will be used to determine the monitoring plan for SFY22 and 23. New providers receiving Federal Block Grant funds will be added to the tracking tool when the determination is made that they are a sub-recipient. Risk assessments on new providers are to be conducted within six months of the executed contract and scores will determine the monitoring plan for each new provider. The Finance Director will be responsible for checking that the risk assessments and monitoring activities are completed and providing information to the TM BH-ASO Administrator.*

*The risk assessment scores, and monitoring outcomes completed to date were shared with the Thurston Mason BH-ASO Compliance Committee Meeting on January 18, 2022.*

*This process will be used in subsequent years to ensure continuation of meeting requirements.*

### ***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 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.



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

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2019

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2018 through December 31, 2018	<b>Report Ref. No.:</b> 1028928	<b>Finding Ref. No.:</b> 2018-001
<b>Finding Caption:</b> The Organization lacked adequate internal controls for ensuring accurate and timely accounting and financial reporting.		
<b>Background:</b> During the 2018 audit, the Organization did not provide the 2018 general ledger reports as requested by SAO and did not keep support for the final monthly bank reconciliation it had completed for the end of 2018. In addition, the Organization submitted its annual financial reports 426 days after the statutory deadline.		
<b>Status of Corrective Action: (check one)</b> <div style="display: flex; justify-content: space-between;"> <div> <input type="checkbox"/> Fully Corrected         </div> <div> <input checked="" type="checkbox"/> Partially Corrected         </div> <div> <input type="checkbox"/> Not Corrected         </div> <div> <input type="checkbox"/> Finding is considered no longer valid         </div> </div>		
<b>Corrective Action Taken:</b> <i>As of the end of the current audit period December 31, 2019, TMBHO has partially met this corrective action item. From 2019 forward TMBHO has put into practice the process of reconciling the general ledger to monthly bank statements on a regular basis and saving all documentation for financial reporting and auditing purposes. This back up is available and has been included in the 2019 document request. Our process is to have the Financial Analyst retrieve the monthly County Treasurer statements and reconcile the statement to the general ledger for each month. Items that do not reconcile are researched and corrected. After reconciliation, the reports are sent to the Finance Director for review. Reports and reconciliation documentation is saved for each month. The bank statement reconciliations and the general ledger have been sent</i>		

*as per request in the 2019 Audit Document Request. We have discovered some discrepancies between the bank statements and our general ledger from our financial software platform that we are actively trying to resolve. We are in the process of identifying the transactions in question, how they are posting to the general ledger and what is causing the issue so that they can be corrected. The services of an outside financial firm have been initiated to assist us with corrections.*

*TMBHO did not submit the 2019 Financial Statement by the statutory deadline and is working internally to prepare and submit each of the subsequent year's financial statements. We have stayed in communication with the Auditor's Office regarding our progress. It is our goal to submit the 2020 and 2021 financial statements within the next 6 months and the report for year ending December 31, 2022, by the 2023 statutory deadline in May.*

<b>Audit Period:</b> January 1, 2018 through December 31, 2018	<b>Report Reference No.:</b> 1028928	<b>Finding Ref. No.:</b> 2018-002	<b>CFDA Number(s):</b> 93.959
<b>Federal Program Name and Granting Agency:</b> Block Grants for Prevention and Treatment of Substance Abuse		<b>Pass-Through Agency Name:</b> Washington State Department of Health and Social Services	
<b>Finding Caption:</b> The Organization's internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.			
<b>Background:</b> The Organization did not ensure it consistently followed internal controls for verifying sub recipients were not suspended or debarred before entering into a contract. The Organization also lacked effective controls for complying with sub recipient monitoring requirements, including ensuring agreements with subrecipients contain the Federal Award Identification Number (FAIN), Federal Award date, indirect cost rate, and the Organization did not complete risk assessments or monitor program compliance, verify sub recipients received single audits and follow up on corrective action sub recipients had taken for identified deficiencies.			
<b>Status of Corrective Action: (check one)</b> <input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>As of the end of the current audit period December 31, 2019, this item was partially corrected. In 2019 the Organization completed risk assessments and monitoring activities for most providers and performed suspension and debarment checks of identified sub recipients that did not have</i>			

*suspension and debarment attestation language in their contracts.*

*The requirement for ensuring agreements with subrecipients contain the Federal Award Identification Number (FAIN), Federal Award date, indirect cost rate was not able to be corrected for this period. The finding for this requirement was not received until October of 2021 and we were unable to go back to that period to amend contracts. Starting with sub recipient contracts for January 1, 2022, TMBHO has added these required elements to all contracts with federal funding awards.*

*To ensure that our organization is complying with internal controls for sub recipient requirements, for review periods from 2020 forward, the Finance Director has created and actively uses a spreadsheet for tracking sub recipient activities that include the following:*

- *The period of award*
- *Sub recipient name*
- *Award amount*
- *Completion of Risk Assessment and resulting score*
- *Monitoring schedule*
- *Completion of Monitoring*
- *Monitoring Outcome*
- *Staff assigned*

*Documentation for each sub recipient is saved as backup for future audits and reference. In addition to this fiscal staff have taken the opportunity to attend training related to Federal Grant Awards to gain a better understanding of the requirements.*

<b>Audit Period:</b> January 1, 2018 through December 31, 2018	<b>Report Reference No.:</b> 1028928	<b>Finding Ref. No.:</b> 2018-03	<b>CFDA Number(s):</b> 93.958
<b>Federal Program Name and Granting Agency:</b>  Block Grants for  Community Mental Health Services		<b>Pass-Through Agency Name:</b>  Washington State Department of  Health and Social Services	
<b>Finding Caption:</b>  The Organization’s internal controls were inadequate for ensuring compliance with suspension and debarment and subrecipient monitoring requirements.			



**Background:**

The Organization did not ensure it consistently followed internal controls for verifying sub recipients were not suspended or debarred before entering into a contract. The Organization also lacked effective controls for complying with subrecipient monitoring requirements, including ensuring agreements with subrecipients contain the Federal Award Identification Number (FAIN), Federal Award date, indirect cost rate, and the Organization did not complete risk assessments or monitor program compliance, verify subrecipients received single audits and follow up on corrective action subrecipients had taken for identified deficiencies.

**Status of Corrective Action: (check one)**

☐ Fully Corrected      ☒ Partially Corrected      ☐ Not Corrected      ☐ Finding is considered no longer valid

**Corrective Action Taken:**

*As of the end of the current audit period December 31, 2019, this item was partially corrected. In 2019 the Organization completed risk assessments and monitoring activities for most providers and performed suspension and debarment checks of identified sub recipients that did not have suspension and debarment attestation language in their contracts.*

*The requirement for ensuring agreements with subrecipients contain the Federal Award Identification Number (FAIN), Federal Award date, indirect cost rate was not able to be corrected for this period. The finding for this requirement was not received until October of 2021 and we were unable to go back to that period to amend contracts. Starting with sub recipient contracts for January 1, 2022, TMBHO has added these required elements to all contracts with federal funding awards.*

*To ensure that our organization is complying with internal controls for sub recipient requirements, for review periods from 2020 forward, the Finance Director has created and actively uses a spreadsheet for tracking sub recipient activities that include the following:*

- *The period of award*
- *Sub recipient name*
- *Award amount*
- *Completion of Risk Assessment and resulting score*
- *Monitoring schedule*
- *Completion of Monitoring*
- *Monitoring Outcome*
- *Staff assigned*

*Documentation for each sub recipient is saved as backup for future audits and reference. In addition to this fiscal staff have taken the opportunity to attend training related to Federal Grant Awards to gain a better understanding of the requirements.*

## 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, 2019 through December 31, 2019**

Board of Commissioners  
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, 2019, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated May 31, 2023.

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.

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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

Our consideration of internal control was for the limited purpose described above 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, we identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2019-001, that we consider to be material weaknesses.

In addition, we also noted certain other matters that we have reported to the management of the Organization in a separate letter dated May 31, 2023.

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

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

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

## **ORGANIZATION'S RESPONSE TO FINDINGS**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and 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.

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

May 31, 2023

## 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, 2019 through December 31, 2019**

Board of Commissioners  
Thurston Mason Behavioral Health Organization  
Lacey, Washington

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

#### **Opinion on Each Major Federal Program**

We have audited the compliance of the Thurston Mason Behavioral Health Organization, with the types of compliance requirements identified as subject to audit 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, 2019. The Organization's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

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, 2019.

#### **Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Organization's compliance with the compliance requirements referred to above.

## **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

## **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;

- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-002. Our opinion on each major federal program is not modified with respect to these matters.

## Organization's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## REPORT ON 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified.

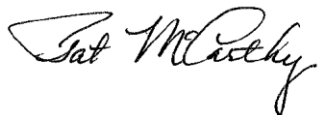
However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2019-002 that we consider to be a material weakness.

### **Organization's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Organization's response was not subjected to the other 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.

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Pat McCarthy, State Auditor

Olympia, WA

May 31, 2023



# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2019**

Board of Commissioners  
Thurston Mason Behavioral Health Organization  
Lacey, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Thurston Mason Behavioral Health Organization, as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the financial section of our report.

### **Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Organization has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2019, on the basis of accounting described in Note 1.

### **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, 2019, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## **Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the Organization in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Matters of Emphasis**

As discussed in Note 9 to the 2019 financial statements, the Organization adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual. Our opinion is not modified with respect to this matter.

## **Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Organization's financial statements. The accompanying 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 as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023 on our consideration of the Organization's internal control over financial reporting and on the 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 the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

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Pat McCarthy, State Auditor

Olympia, WA

May 31, 2023

## **FINANCIAL SECTION**

### **Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2019  
Notes to Financial Statements – 2019

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2019  
Schedule of Expenditures of Federal Awards – 2019  
Notes to the Schedule of Expenditures of Federal Awards – 2019

**Thurston Mason Behavioral Health Organization**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

**Beginning Cash and Investments**

30810	Reserved	-
30880	Unreserved	41,156,433
388 / 588	Net Adjustments	125,820

**Revenues**

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	61,773,514
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	831,556
Total Revenues:		62,605,070

**Expenditures**

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	75,844,995
570	Culture and Recreation	-
Total Expenditures:		75,844,995
Excess (Deficiency) Revenues over Expenditures:		(13,239,925)

**Other Increases in Fund Resources**

391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 382, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		-

**Other Decreases in Fund Resources**

594-595	Capital Expenditures	2,530,519
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581, 582	Other Uses	-
Total Other Decreases in Fund Resources:		2,530,519

**Increase (Decrease) in Cash and Investments:** **(15,770,444)**

**Ending Cash and Investments**

5081000	Reserved	-
5088000	Unreserved	25,511,810
<b>Total Ending Cash and Investments</b>		<b>25,511,810</b>

*The accompanying notes are an integral part of this statement.*

**Thurston Mason Behavioral Health Organization, LLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For Year End December 31, 2019**

**Note 1 - Summary of Significant Accounting Policies**

Thurston Mason Behavioral Health Organization, LLC is a multi-county “quasi-governmental” entity for Thurston and Mason Counties created by the TMBHO Interlocal Agreement executed on September 15, 2015. This agreement is a joint operating agreement between the two Counties to operate as a Behavioral Health Organization for the two-county Regional Service Area for the purpose administering and providing publicly funded behavioral health services on behalf of state and local government.

Thurston Mason BHO 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 *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

Financial transactions of the Thurston Mason BHO are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. Thurston Mason BHOs’ resources are allocated to and accounted for in individual funds depending on their intended purpose. The following fund type is used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the only operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

B. 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. Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense.

#### D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than 1 years. Capital assets and inventory are recorded as capital expenditures when purchased.

#### E. Compensated Absences

Paid Time Off leave may be accumulated up to 320 days. A maximum of 320 hours is payable upon separation or retirement. Payments are recognized as expenditures when paid.

#### F. Long-Term Debt

See Note 4 - *Debt Service Requirements*.

#### G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by Thurston Mason BHO. When expenditures that meet restrictions are incurred, the Thurston Mason BHO intends to use the most restricted resources first.

As of December 31, 2019, there were no restrictions and commitments of the General Fund.

### **Note 2 - Budget Compliance**

Thurston Mason BHO adopts an annual appropriated budget for general funds. This budget is adopted 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. The annual appropriated budget is adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:	\$85,779,448	\$75,844,995	\$9,934,453



Budgeted amounts are authorized to be transferred between (within any fund/object classes); however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions must be approved by the Thurston Mason BHO Governing Board.

### **Note 3 – 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 qualifies 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 ensure 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. Increase expenses for payroll, equipment, telehealth, virtual meeting platforms, PPE and cleaning supplies were incurred, with some costs being 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 operation impact on TMBHO appears to be minimal and able to be absorbed within allocated resources at this time.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the Thurston Mason BHO is unknown at this time.

### **Note 4- Long-term Debt**

Thurston Mason BHO has no long-term debt.

## **Note 5 – Financial Condition**

Thurston Mason BHO serves at the pleasure of the state, federal and local governments who provide funding through the Washington Health Care Authority. Our role is to serve individuals in our two-county region. The BHO will close out its obligations under the HCA contracts for 2019 by mid-2020 and be issued contracts to operate as an Administrative Service Organization (ASO) for the same two-county region on January 1, 2020.

The BHO does not foresee any issues meeting its obligations as a BHO and in the future as an ASO.

## **Note 6- Contingencies and Litigation**

Thurston Mason BHO participates in several federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under terms of the grants. Thurston Mason BHO management believes that such disallowances, if any, would be immaterial.

## **Note 7 – Deposits and Investments**

It is Thurston Mason BHOs' policy to invest all temporary cash surpluses. The interest on investments is posted to the General Funds.

Thurston Mason BHOs' deposit s and certificate of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered, or held by Thurston County in Thurston Mason BHOs' name.

Investments are reported at original cost. The total invested in the Thurston County Investment Pool as of December 31, 2019, was \$25,511,809. (See Note x Other Disclosures).

All Deposits & Investments  
December 31, 2019

TCIP	\$25,511,809
Total Cash & Investments	\$25,511,809

Thurston Mason BHO is a participant in the Thurston County Investment Pool, an external investment pool. Thurston Mason BHO reports its investment in the pool as the fair value amount, which is the same as the value of the pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The County's investment policy is established by the County Finance Committee consisting of the County Treasurer, the County Auditor and the Chairman of the Board of County Commissioners. The object of the policy is to invest public funds in a manner which will provide maximum security with the highest investment return while meeting daily cash flow demands and conforming to all state and local statutes governing the investment of public funds.

The Thurston County Investment Pool does not have a credit rating and had a weighted average maturity of 1.46 years as of December 31, 2019.

Thurston Mason BHO has entered into a formal agreement with Thurston County to have all its funds not required for immediate expenditure to be invested in the Thurston County Investment Pool (TCIP). Interest is reported in the General Fund.

**Fair Value Multiplier (1)**

1.001571

- (1) A TCIP participant can calculate the fair value of its investments in the TCIP by taking the multiplier supplied by Thurston County for the end of the fiscal year and multiplying this number times the amount of cash that the participant had in the TCIP. For example, if a participant had \$1,000,000 in cash invested in the TCIP, the fair value of its investments in the TCIP at December 31, 2019 would be calculated by taking \$1,000,000 times 1.001571, or \$1,001,571.

The TCIP reports its investments as the fair value amount, which is the same as the value of the pool per share. The fair value of Thurston Mason BHOs' investment as of December 31, 2019 was \$25,551,888.

**Note 8 – Pension Plans**

**A. State Sponsored Pension Plans**

Substantially all Thurston Mason BHOs' 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 and defined contribution retirement plans.

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](http://www.drs.wa.gov).

On June 30, 2019, (the measurement date of the retirement plans), Thurston Mason BHOs' proportionate share of the collective net pension liabilities as reported on the Schedule 09, was as follows:

PLAN	Employer Contributions	Allocation %	Liability
PERS 1	227,790	0.031768%	1,221,592
PERS 2/3	335,102	0.041029%	398,531

The total net pension liability for period ending June 30, 2019, is \$1,620,123.

#### **Note 9 – OPEB Plans**

Thurston Mason BHO 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. Thurston Mason BHO had 67 active plan members and 0 retired plan members as of December 31, 2019. As of December 31, 2019, Thurston Mason BHO's total OPEB liability was \$1,855,512 as calculated using the alternative measurement method. Thurston Mason BHO contributed \$449,854 to the plan for the year ended December 31, 2019.

#### **Note 10 – Lease Liabilities**

The entity had 3 leased vehicles in the amount of \$26,081 at the beginning of 2019 that have been reported on the Schedule 9 for year ending December 31, 2019. These leases were entered into in 2018 but were not reported on the Schedule 9. The ending balance as of 2018 was \$26,081 and was entered as the beginning balance for 2019. There were not any additions to the lease liabilities in 2019. These vehicles were purchased outright at the end of the year and will not be a continuing liability. The total amount of the purchase price to the vehicles was \$52,551.

#### **Note 11 – Paid Family Medical Leave Act Self-Insurance**

Thurston Mason BHO participates in the State of Washington's Paid Family & Medical Leave Program for both the family leave benefit and individual medical leave benefit.

## **Note 12 – Risk Management**

### **Organizational Liability Insurance-**

Thurston Mason Behavioral Health Organization is a member of Enduris. Chapter 48.62 RCW provides the exclusive source of local government entity authority to individually or jointly self-insure risks, jointly purchase insurance or reinsurance, and to contract for risk management, claims, and administrative services. The Pool was formed July 10, 1987 pursuant to the provisions of Chapter 48.62 RCW, Chapter 200-100 WAC, and Chapter 39.34 RCW when two counties and two cities in the State of Washington joined together by signing an interlocal governmental agreement to fund their self-insured losses and jointly purchase insurance and administrative services. As of August 31, 2019, there are 547 Enduris members representing a broad array of special purpose districts throughout the state. Enduris provides property and liability coverage as well as risk management services and other related administrative services.

Members make an annual contribution to fund the Pool and share in the self-insured retention. The self-insured retention is:

- \$1,000,000 self-insured retention on liability loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$999,000 on a liability loss.
- \$250,000 self-insured retention on property loss - the member is responsible for the first \$1,000 of the amount of each claim, while Enduris is responsible for the remaining \$249,000 on a property loss. For property losses related to boiler and machinery Enduris is responsible for the first \$4,000 of the claim.

Enduris acquires reinsurance from unrelated insurance companies on a “per occurrence” basis to cover all losses over the self-insured retentions as shown on the policy maximum limits. Liability coverage is for all lines of liability coverage including Public Official’s Liability. The Property coverage is written on an “all risk”, blanket basis using current Statement of Values. The Property coverage includes but is not limited to mobile equipment, boiler and machinery, electronic data processing equipment, business interruption, course of construction and additions, property in transit, fine arts, cyber and automobile physical damage to insured vehicles. Liability coverage limit is \$20 million per occurrence and property coverage limit is \$1 billion per occurrence. Enduris offers crime coverage up to a limit of \$1 million per occurrence.

Since Enduris is a cooperative program, there is joint liability among the participating members.

The contract requires members to remain in the Pool for a minimum of one year and must give notice 60 days before terminating participation. The Master Agreement (Intergovernmental Contract) is automatically renewed after the initial one (1) full fiscal year commitment. Even after termination, a member is still responsible for contribution to Enduris for any unresolved, unreported and in-process claims for the period they were a signatory to the Master Agreement.

Enduris is fully funded by its member participants. Claims are filed by members with the Pool and are administered in house.

The Pool is governed by a Board of Directors which is comprised of seven board members. The Pool's members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of Enduris.

#### **Health and Welfare Insurance-**

Thurston Mason BHO offers employee medical (including dental and eye care) coverage through the Washington State Public Employees Benefit Board Program.

#### **Unemployment Compensation and Labor and Industries-**

Unemployment taxes are paid to the Employment Security Department to cover any obligations for unemployment compensation. Premiums are paid to the Washington State Department of Labor and Industries to cover any workers compensation obligations.

### **Note 13- Subsequent Events**

Thurston Mason BHO 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 Services Area (RSA) effective 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 Organization operating in our state.

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

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

For financial statement reporting purposes the BHO and ASO will be the same reporting entity as the Thurston Mason BHO, LLC.

### **Note 14– Other Disclosures**

#### **Corrections to 2018 Financial Reports:**

##### **1. Note 4 from 2018 – Pension Liabilities miscalculated. Corrected Pension Liabilities table:**

	<b>Employer Contributions</b>	<b>Statewide Net Pension Liability</b>	<b>TMBH Allocation %</b>	<b>Liability</b>
PERS 1	105,747	4,745,078,000	0.015820%	750,671
PERS 2/3	157,463	3,474,522,000	0.020407%	836,317
<b>TOTAL</b>	<b>263,210</b>			<b>1,586,988</b>

**2. Schedule of Liabilities from 2018 – Pension Liabilities misstated. Corrected Schedule:**

<b>ID</b>	<b>Description</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
259.12	Compensated Absences	132,155	93,477	0	225,632
264.30	Pension Liability	42,996	1,546,992	0	1,589,988

### 3. Schedule of Expenditures of State Financial Assistance – Corrected Schedule:

Grantor	Project	Program Title	Identification # (TMBH contract # w/state)	Total
3000 DSHS	41409	Non-Medicaid State	1869-32930;1869-32930	7,827,108
3000 DSHS	41406	Expanded Community Services (ECS)	1869-32930	37,488
3000 DSHS	41416	Roads to Community Living (RCL)	1669-61837	2,426
3000 DSHS	41417	Jail Services	1869-32930;1869-32930	77,832
3000 DSHS	41419	Program for Assertive Community Treatment (PACT)	1869-32930;1869-32930	187,545
3000 DSHS	41425	Family Youth Systems Partner Round Table (FYSPRT)	1669-60668	67,749
3000 DSHS	41605	Dedicated Marijuana Act (DMA)	1869-32930;1869-32930	196,789
3000 DSHS	41609	Criminal Justice Treatment Account (CJTA)	1669-57903	262,143
3000 DSHS	96011	Housing and Recovery through Peers (HARPS)	1869-32930;1869-32930	246,108
3000 DSHS	96012	HARPS Proviso	1869-33223	95,543
3000 DSHS	96016	Mental Health Enhancement	1669-57903	5,295
1030 COM	41428	Mason Co Triage 1st Floor	16-93218-029	312,100
1030 COM	41429	Mason Co Triage 2nd Floor	18-96617-422	140,852
		<b>TOTAL STATE EXPENDITURES</b>		<b>9,458,978</b>



#### 4. Schedule of Expenditures of Federal Awards (SEFA)

CFDA #	Federal Agency Name (Optional)	Project	Federal Program Name (Optional)	Pass-Through Agency Name	Other Award I.D. Number (Contract #)	TOTAL	Passed thru to Subrecipients
93.150	DHHS	41400	Projects for Assistance in Transition for Homelessness (PATH)	DSHS	1769-15583	57,799	57,799
93.150	DHHS	41400	Projects for Assistance in Transition for Homelessness (PATH)	HCA	HCA K3145	11,096	11,096
93.958	DHHS	41401	Mental Health Block Grant (MHBG)	DSHS	1769-94486, 1869-33074	752,030	442,313
93.959	DHHS	41601	Substance Abuse Block Grant (SABG)	DSHS	1769-94486, 1769-96825	955,175	441,776
93.788	DHHS	41618	State Targeted Assistance (STR) Pathfinder	DSHS	1669-58054	173,290	173,290
						<b>1,949,390</b>	<b>1,126,274</b>

**Thurston Mason Behavioral Health Organization**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.56	Lease Liabilities		26,081	-	26,081	-
	<b>Total General Obligation Debt/Liabilities:</b>		<b>26,081</b>	<b>-</b>	<b>26,081</b>	<b>-</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	1/1/1900	225,632	101,221	-	326,853
264.30	Pension Liabilities		189,754	1,430,369	-	1,620,123
264.40	OPEB Liabilities		-	1,855,512	-	1,855,512
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>415,386</b>	<b>3,387,102</b>	<b>-</b>	<b>3,802,488</b>
	<b>Total Liabilities:</b>		<b>441,467</b>	<b>3,387,102</b>	<b>26,081</b>	<b>3,802,488</b>

**Thurston Mason Behavioral Health Organization  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		ALN Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total		
DHHS (via DSHS/HCA)	Projects for Assistance in Transition from Homelessness (PATH)	93.150	41400	78,545	-	78,545	78,545	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via DSHS/HCA)	Opioid STR	93.788	41618	98,870	-	98,870	98,870	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via DSHS/HCA)	Block Grants for Community Mental Health Services	93.958	41401	671,405	-	671,405	442,313	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via DSHS/HCA)	Block Grants for Community Mental Health Services	93.958	41402	3,515	-	3,515	-	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via DSHS/HCA)	Block Grants for Community Mental Health Services	93.958	41403	54,048	-	54,048	-	
<b>Total ALN 93.958: 728,968</b>							<b>728,968</b>	<b>442,313</b>

*The accompanying notes are an integral part of this schedule.*

**Thurston Mason Behavioral Health Organization**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2019**

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures					Passed through to Subrecipients	Note
		ALN 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 DSHS/HCA)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	41601	973,545	-	973,545	441,776	
<b>Total Federal Awards Expended:</b>				<b>1,879,928</b>	<b>-</b>	<b>1,879,928</b>	<b>1,061,504</b>	

**Thurston Mason Behavioral Health Organization Notes to the Schedule of Expenditures of  
Federal Awards**

**For the Year Ended December 31, 2019**

**Note 1 – Basis of Accounting**

This Schedule is prepared on the same basis of accounting as the Thurston Mason Behavioral Health Organization financial statements. Thurston Mason BHO uses the cash basis of accounting for government funds.

**Note 2 – Federal De Minimis Indirect Cost Rate**

Thurston Mason BHO has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. No admin is taken from these funds.

**Note 3 – Program Costs**

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including Thurston Mason BHOs' portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



GOVERNING BOARD  
Kevin Shutty, Commissioner  
Mason County District Two

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, 2019 through December 31, 2019**

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).

<b>Finding ref number:</b> 2019-001	<b>Finding caption:</b> The Organization lacked adequate internal controls for ensuring compliance with state law requiring timely annual report submissions
<b>Name, address, and telephone of Organization contact person:</b> Tara Smith, CFO 612 Woodland Square Loop SE, Suite 401 Lacey, WA 98503	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>Thurston Mason Behavioral Health Organization agrees with finding 2019-003 regarding the Organization's lack of adequate internal controls for ensuring compliance with state law requiring timely annual report submission having submitted the 2019 annual report 686 days late.</i>  <i>We understand and recognize the importance of providing information that is timely and accurate to ensure transparency in government and have put ourselves in a difficult position by becoming so tardy in reporting.</i>	

*There had been a steep learning curve for fiscal staff in our organization in learning the requirements for reporting as a Government Agency that have been bridged through additional training and technical assistance from the SAO's office and other outside resources. The full transition from GAAP to Cash basis reporting was completed in 2019 and our fiscal team has been in consistent communication with the State Auditor's Office regarding our timeline for filing our subsequent reports so that audits can be completed.*

*The Organization has continued to put forth time and effort to receive training, conduct planning, prepare, review, and submit annual reports to the State Auditor for reporting years 2020, 2021 and 2022 and is committed to being in full compliance. The annual report for 2020 was submitted on May 12, 2023, and a commitment to the Auditor's Office has been made to submit the 2021 annual report in August 2023. Our organization anticipates it will take until the end of calendar 2023 to complete the Annual Reporting Requirements for fiscal year 2022. The Executive Leadership Team and the Governing Board members for our organization continue to be briefed on the progress and outcome of the audits completed and in process. We appreciate the partnership with the SAO and technical assistance.*

**Anticipated date to complete the corrective action:** December 31, 2023

<b>Finding ref number:</b>	<b>Finding caption:</b>
2019-002	The Organization's internal controls were inadequate for ensuring compliance with subrecipient monitoring requirements.

**Name, address, and telephone of Organization contact person:**

Tara Smith, CFO  
612 Woodland Square Loop S.E., Suite 401  
Lacey, WA 98503

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

*Thurston Mason Behavioral Health Organization agrees with finding 2019-001 regarding the Organization's lack of adequate internal controls for ensuring compliance with subrecipient monitoring requirements.*

*We understand and recognize the importance of subrecipient monitoring to ensure that subrecipients are following federal requirements for use of federal block grant funds for both Block Grants for Community Mental health Services 93.958 and Block Grants for Prevention and Treatment of Substance Abuse 93.959.*

*It is noted in the description of condition for this finding that it was an audit finding in 2018 as well. Due to the timing of the completion and issuance of the 2018 findings at the Exit Conference in August of 2021 there was not an opportunity to complete corrective actions for the 2019 period.*

*Following the issuance of the findings from the 2018 audit our organization has had key fiscal staff attended Federal Block Grant training and have reviewed the federal funding requirement language passed down in the contracts issued to us by the Health Care Authority with our awards:*

*To ensure that subrecipient monitoring requirements are met the Finance Director has developed a tracking tool that is currently in use that includes the following:*

- Identified subrecipients*
- Period of award*
- Fiscal staff assigned to conduct risk assessment and monitoring follow up*
- Risk assessment completion date,*
- Monitoring schedule, status, and completion date*
- Verification of single audits being received, if required*
- Issuance of corrective action taken if needed and*
- Issuance of management decisions within six months of audit report issuance for applicable audit findings*

*The tool is actively being used by the fiscal team to ensure that all activities are completed in a timely manner. The status of the activities is discussed with assigned staff at periodic fiscal team meetings and all items are reviewed by the Finance Director prior to an item being marked as completed.*

*For SFY21, seven of the eight identified sub-recipients have had a risk assessment completed. One risk assessment is still in process. For the same review period, six of the eight sub-recipient monitoring's have been completed. There is one provider monitoring that is scheduled to be completed this week and the last provider monitoring is scheduled to be completed by the end of March 2022.*

*The risk scores and monitoring outcomes will be used to determine the monitoring plan for SFY22 and 23. New providers receiving Federal Block Grant funds will be added to the tracking tool when the determination is made that they are a sub-recipient. Risk assessments on new providers are to be conducted within six months of the executed contract and scores will determine the monitoring plan for each new provider. The Finance Director will be responsible for checking that the risk assessments and monitoring activities are completed and providing information to the TM BH-ASO Administrator.*

*The risk assessment scores, and monitoring outcomes completed to date were shared with the Thurston Mason BH-ASO Compliance Committee Meeting on January 18, 2022.*

*This process will be used in subsequent years to ensure continuation of meeting requirements.*

**Anticipated date to complete the corrective action:** March 31, 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.

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