



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, 2020 through December 31, 2020

Published February 5, 2024

Report No. 1034216



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

February 5, 2024

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

Americans with Disabilities

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

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 no 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 a qualified 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

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See Finding 2020-001.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

2020-001 The Organization's internal controls were inadequate for ensuring compliance with subrecipient monitoring requirements.

Assistance Listing Number and Title:	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:	K4163, K4185, K4764, K4717
Known Questioned Cost Amount:	\$0
Prior Year Audit Finding:	Yes, Finding 2019-002

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 2020, the Organization spent \$911,583 in MHBG funds. The Organization passed through \$304,812 of these funds to one subrecipient.

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

2020, the Organization spent \$966,542 in SABG funds. The Organization passed through \$271,094 of these funds to five 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, they must evaluate each 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 five of its subrecipients and determined it did not:

- Complete risk assessments or monitor program compliance
- Verify the subrecipients received required single audits
- 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.

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 2020-001 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 and 2019 as well. Due to the timing of the completion of our audits and issuance of the findings there was not an opportunity to complete corrective actions for these periods.

Following the issuance of the previous findings 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 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.

TMBHO is confident that audits for subsequent years after the date of the initial finding and repeat findings that the SAO will find the entity to be in compliance with this requirement.

Auditor's Remarks

We thank the Organization for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the Organization's corrective action during our next 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.



OLYMPIC HEALTH & RECOVERY SERVICES

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

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

Audit Period: January 1, 2019 through December 31, 2019	Report Ref. No.: 1032731	Finding Ref. No.: 2019-001
Finding Caption: The Organization lacked adequate internal controls for ensuring compliance with state law requiring timely annual report submissions.		
Background: 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.		
Status of Corrective Action: (check one) See the 2020 Accountability Audit Report for the re-issued finding: 2020-001 The Organization lacked adequate internal controls for ensuring compliance with state law requiring timely annual report submissions. <input type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input checked="" type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>TMBHO's Finance team is working to prepare and submit the 2021 and 2022 past due Annual Financial Reports by May of 2024. We plan to come into compliance with this finding in May of 2024 by also submitting the 2023 Annual Financial Report by the deadline set in statute. Steps to prepare the Annual Financial Reports for each of the years above have been assigned to staff with a timeline and will be monitored and reviewed by the Finance Director. Progress will be monitored and reported to the CEO, COO and the State Auditor's Office as requested.</i>		

Audit Period: January 1, 2019 through December 31, 2019	Report Ref. No.: 1032731	Finding Ref. No.: 2019-002	Assistance Listing Number(s): 93.958, 93.959
Federal Program Name and Granting Agency: Block Grants for Community Mental Health Services, Block Grants for Prevention and Treatment of Substance Abuse		Pass-Through Agency Name: SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	
Finding Caption: The Organization's internal controls were inadequate for ensuring compliance with subrecipient monitoring requirements.			
Background: The Organization is required to evaluate the subrecipient's risk of noncompliance with federal requirements to determine the appropriate level of subrecipient monitoring. The Organization lacked effective controls for complying with subrecipient monitoring requirements. Specifically, the Organization did not: <ul style="list-style-type: none"> • 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 			
Status of Corrective Action: (check one) <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			
Corrective Action Taken: <i>TMBHO has developed and is using a monitoring schedule and checklist to ensure sufficient subrecipient monitoring is done for contracts issued to providers/vendors who meet the criteria. The SAO will find subrecipient monitoring to be in place for funds contracted starting in 2022. Due to the timing of the completion and issuance of the 2019 findings at the Exit Conference in August of 2021 there was not an opportunity to complete corrective actions for the 2019 period.</i>			

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, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated January 30, 2024.

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.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain other matters that we have reported to the management of the Organization in a separate letter dated January 30, 2024.

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*.

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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

January 30, 2024

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, 2020 through December 31, 2020

Board of Commissioners
Thurston Mason Behavioral Health Organization
Lacey, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Qualified Opinion on 93.958 - Block Grants for Community Mental Health Services and 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

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, 2020. 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, except for the noncompliance described below, 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 93.958 - Block Grants for Community Mental Health Services and 93.959 - Block Grants for Prevention and Treatment of Substance Abuse for the year ended December 31, 2020.

Basis for Qualified Opinion on 93.958 - Block Grants for Community Mental Health Services and 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

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).

Our responsibilities under those standards and the 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 District and to meet our other ethical responsibilities, in accordance with 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 qualified opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on 93.958 - Block Grants for Community Mental Health Services and 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

As described in the accompanying Schedule of Findings and Questioned Costs and Finding 2020-001, the Organization did not comply with requirements regarding 93.958 – Block Grants for Community Mental Health Services and 93.959 – Block Grants for Prevention and Treatment of Substance Abuse for Subrecipient Monitoring.

Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to that program.

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.

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.

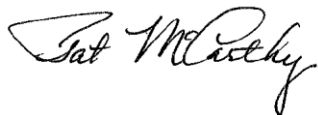
However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2020-001 that we consider to be a material weakness.

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.

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

January 30, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

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, 2020, 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, 2020, 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, 2020, 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.

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 January 30, 2024 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

January 30, 2024

FINANCIAL SECTION

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2020

Notes to Financial Statements – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2020

Schedule of Expenditures of Federal Awards – 2020

Notes to the Schedule of Expenditures of Federal Awards – 2020

Thurston Mason Behavioral Health Organization
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2020

Beginning Cash and Investments

308	Beginning Cash and Investments	25,511,810
388 / 588	Net Adjustments	200,595

Revenues

310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	21,512,751
340	Charges for Goods and Services	-
350	Fines and Penalties	-
360	Miscellaneous Revenues	2,067,442
Total Revenues:		23,580,193

Expenditures

510	General Government	-
520	Public Safety	-
530	Utilities	-
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	35,583,424
570	Culture and Recreation	-
Total Expenditures:		35,583,424
Excess (Deficiency) Revenues over Expenditures:		(12,003,231)

Other Increases in Fund Resources

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

Other Decreases in Fund Resources

594-595	Capital Expenditures	2,052,589
591-593, 599	Debt Service	-
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		2,052,589

Increase (Decrease) in Cash and Investments: **(14,055,820)**

Ending Cash and Investments

50821	Nonspendable	-
50831	Restricted	3,186,008
50841	Committed	-
50851	Assigned	-
50891	Unassigned	8,470,577
Total Ending Cash and Investments		11,656,585

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, 2020

Introduction

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 of administering and providing publicly funded behavioral health services on behalf of state and local government.

Note 1 - Summary of Significant Accounting Policies

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.

C. Deposits and Investments

See Note 7- *Deposits and Investments*

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 year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Paid Time Off leave may be accumulated up to 320 hours. A maximum of 160 hours is payable upon separation or retirement. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 4 - *Long-Term Debt*

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, 2020, there was \$3,186,008 in restricted funds as required by contracts and proviso funding.

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:	\$27,085,397	\$35,583,424	(\$8,498,027)

Budgeted amounts are authorized to be transferred between or 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.

For the 2020 Budget year operational budgets were developed separately for the closeout of the BHO and the ASO. The variance in the budget to actual expenditures is due to the closeout of the BHO and the repayment of the remaining fund balance of Medicaid and other state funds that were unspent at the time of the closeout. The Health Care Authority (HCA) worked with our entity to review and approve a closeout plan as well as the final revenue and expenditures related to BHO business. The final amount agreed upon as the remaining fund balance was \$8,745,024.57. The payment was made to HCA in October of 2020. If not for this circumstance the actual budget expenditure would not have been more than the budget appropriation.

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 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 was able to be absorbed within allocated resources during the pandemic.

As of May 2023, COVID-19 restrictions have been lifted.

Note 4- Long-term Debt

Thurston Mason BHO has no long-term debt or capital leases for this period.

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 and local grant funds. Our role is to coordinate services for and provide direct services for individuals in our two-county region who present with behavioral health needs. The BHO closed out operations under The Health Care Authority (HCA) at the direction of the state in mid-2020. Medicaid funds administered through the HCA were contracted to Managed Care Organizations to administer starting January 1, 2020. Thurston Mason BHO continues to fulfill its obligations under the HCA contracts for non-Medicaid funded services 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 or from 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 Fund.

Thurston Mason BHOs' deposits 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, 2020, was \$11,656,585.

All Deposits & Investments December 31, 2020	
TCIP	\$11,656,585
Total Cash & Investments	\$11,656,585

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 1.91 years as of December 31, 2020.

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)

1.008299

- (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, 2020 would be calculated by taking \$1,000,000 times 1.008299, or \$1,008,299.

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, 2020, was \$11,753,323.

Note 8 – Paid Family Medical Leave Act Self-Insurance

Thurston Mason BHO participates in the State of Washington's Paid Family & Medical Leave Program for the family leave benefit and the medical leave benefit and contributes through payroll deductions and payments are made to the State.

Note 9 – 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.

On June 30, 2020, (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	\$242,971	.033525%	\$1,183,614
PERS 2/3	\$399,423	.043357%	\$554,511

The total net pension liability for the period ending June 30, 2020, is \$1,738,125.

Note 10 – 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 64 active plan members and 0 retired plan members as of December 31, 2020. As of December 31, 2020, Thurston Mason BHO's total OPEB liability was \$2,076,507, and the expense was \$803,545, as calculated using the alternative measurement method.

Note 11 – Risk Management

Organizational Liability Insurance January 1, 2020 through September 30, 2020

Thurston Mason BHO 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, 2020, 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 \$800 million 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.

Enduris did not have any claim settlements that exceeded the limits in the last 3 years.

Additional Organization Liability Insurance June 1, 2020, through June 1, 2021

Thurston Mason BHO purchased additional private commercial insurance through multiple insurers. Limits are listed for the following liability risks:

Commercial General Liability	
Each Occurrence	\$1,000,000
Damage to Rented Premises	\$50,000
Personal Property Coverage (any one person)	\$5,000
General Aggregate	\$3,000,000
Products-Comp/OP AGG	\$3,000,000
WA Stop Gap	\$1M/\$1M/\$1M
Automobile Liability	\$1,000,000
Professional Liability	\$1M each claim/\$3M Aggregate
Public Official E&O	\$2,000,000
Employment Practices Liability	\$2,000,000

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 using a cost share model that is primarily employer paid with the employee portion of the contribution determined by which plan the employee selects. Vision, Dental, Voluntary Life and Disability are purchased through the Washington Counties Insurance Fund.

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 12- 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 from State funds directly contracted 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 can be seen in the ending balances on 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 13– Other Disclosures

1. TMBH-ASO/OHRS received Claim for Damage Form from legal representatives of the Estate of Justin Schaffer on July 11, 2022. The plaintiff has not itemized claims for damages but indicates a claim of \$10 million.
 - a. Washington State Patrol Trooper Justin Schaffer was killed in the line of duty on March 24, 2020, while responding to a call involving an individual that had received services from OHRS.
 - b. On March 10, 2023, complainant filed suit naming Thurston Mason Behavioral Health, LLC dba Olympic Health and Recovery services, along with 7 other parties as defendants.
 - c. TMBH-ASO/OHRS has engaged external legal representation.
 - d. Potential verdict or settlement is difficult to assess, currently there is zero valuation.
 - e. Defense costs and damages are covered by the insurance retention and deductible rate of \$1,000. Claim limits up to \$ 3,000,000.
2. TMBHO/ASO received a letter from legal counsel representing a former employee on March 20, 2023, requesting to negotiate a severance package. Their representative has stated that if a severance package cannot be negotiated, they intend to file charges with the Equal Employment Opportunity Commission (EEOC) and Washington State Human Rights Commission alleging discrimination and retaliation.
 - a. Claimant alleges they experienced racial discrimination and hostile work environment. Claimant does not define period, but was employed with TMBHO May 13, 2019 through March 6, 2023.
 - b. TMBHO notified insurance and was assigned legal representation for pre-defense. Conversations are ongoing with the intention to seek out of court settlement.
 - c. Severance negotiation and pre-defense request has been accepted by insurance and external counsel assigned.
 - d. Insurance retention fee is \$35,000. Claimant is requesting one year's salary, approximately \$50,000. Severance negotiations appear favorable.
 - e. Severance costs will be paid by employer.

Thurston Mason Behavioral Health Organization
Schedule of Liabilities
For the Year Ended December 31, 2020

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		326,853	-	25,201	301,652
264.30	Pension Liabilities		1,620,123	118,002	-	1,738,125
264.40	OPEB Liabilities		1,855,512	220,995	-	2,076,507
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,802,488	338,997	25,201	4,116,284
Total Liabilities:			3,802,488	338,997	25,201	4,116,284

**Thurston Mason Behavioral Health Organization
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020**

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 WAHCA)	Block Grants for Community Mental Health Services	93.958	1869-33074	87,918	-	87,918	56,685	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	Block Grants for Community Mental Health Services	93.958	K4163	547,606	-	547,606	248,127	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	Block Grants for Community Mental Health Services	93.958	K4185	110,550	-	110,550	-	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	Block Grants for Community Mental Health Services	93.958	K4163	162,149	-	162,149	-	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	Block Grants for Community Mental Health Services	93.958	K4764	3,360	-	3,360	-	
		Total ALN 93.958:		911,583	-	911,583	304,812	
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION, HEALTH AND HUMAN SERVICES, DEPARTMENT OF (via WAHCA)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1769-96825	168,811	-	168,811	94,463	

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, 2020

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 WAHCA)	Block Grants for Prevention and Treatment of Substance Abuse	93.959	K4163	797,731	-	797,731	176,631	
		Total ALN 93.959:		966,542	-	966,542	271,094	
		Total Federal Awards Expended:		1,878,125	-	1,878,125	575,906	

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

For the Year Ended December 31, 2020

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.



CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Thurston Mason Behavioral Health Organization January 1, 2020 through December 31, 2020

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: 2020-001	Finding caption: 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., Lacey, WA 98503 (360) 763-5809	
Corrective action the auditee plans to take in response to the finding: <i>Thurston Mason Behavioral Health Organization agrees with finding 2020-001 regarding the Organization's lack of adequate internal controls for ensuring compliance with subrecipient monitoring requirements.</i> <i>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.</i> <i>It is noted in the description of condition for this finding that it was an audit finding in 2018 and 2019 as well. Due to the timing of the completion of our audits and issuance of the findings there was not an opportunity to complete corrective actions for these periods.</i> <i>Following the issuance of the previous findings our organization has had key fiscal staff attended Federal Block Grant training and have reviewed the federal funding requirement</i>	

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 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.

TMBHO is confident that audits for subsequent years after the date of the initial finding and repeat findings that the SAO will find the entity to be in compliance with this requirement.

Anticipated date to complete the corrective action: December 31, 2024

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.

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- Toll-free Citizen Hotline:
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