



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Thurston Mason Behavioral Health Organization

For the period January 1, 2019 through December 31, 2020

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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 Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Organization operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the Organization's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, Organization operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the Organization could make improvements. These recommendations are included with our report as findings.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the Thurston Mason Behavioral Health Organization from January 1, 2019 through December 31, 2020.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Organization's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2020 and 2019, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Procurement – public works and purchases
- Compliance with public work projects – change orders
- Accounts payable – credit cards, general disbursements and electronic funds transfers
- Compliance with state grants
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2020

2020-001 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 2020. The Organization filed its 2020 annual reports 712 days late.

This issue was reported as a finding in the prior three 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 to completing its annual reports, including financial statements, until after the 2020 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 2020-001 regarding the Organization's lack of adequate internal controls for ensuring compliance with state law requiring timely annual report submission having submitted the 2020 annual report 712 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.

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 2021 and 2022. It is our goal to be in full compliance with reporting timelines for SFY 2023.

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 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

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 AUDIT FINDINGS AND RESPONSES

Thurston Mason Behavioral Health Organization January 1, 2019 through December 31, 2020

2020-002 The Organization did not have adequate internal controls to ensure compliance with state procurement requirements.

Background

Thurston Mason Behavioral Health Organization administers and coordinates behavioral health services for Medicaid-eligible and low-income people seeking treatment in Thurston and Mason counties. The Organization was formed through an interlocal agreement process originating from Thurston County.

During the audit period, the Organization completed a renovation for the Mason County Evaluation & Treatment Facility Building, totaling \$1,449,500. State law requires local governments to solicit bids and keep records for purchases and projects that meet or exceed established thresholds. Specifically, state law requires behavioral health organizations to use the most restrictive threshold of the forming entity for a formal sealed bid procedure for public works projects, which is \$40,000.

In addition, local governments must comply with competitive bidding requirements when a change order drastically modifies the scope of work beyond that of the original contract.

Description of Condition

Our audit found the Organization did not have effective internal controls in place to comply with state procurement regulations. We identified the following concerns relating to support for competitive processes and change orders for the treatment facility building project.

Procurement

During the audit period, the Organization contracted for the project, but did not retain documentation to demonstrate compliance with the required competitive bidding process.

Change Orders

During the audit period, the Organization approved change orders for the project. Upon review, we noted that the change orders were likely because the original scope of the project was inadequate, which resulted in excessive change orders that were not within the original scope.

Cause of Condition

Organization management and staff were not aware of state procurement laws, including those governing public works projects.

Effect of Condition

The Organization did not retain documentation to demonstrate it complied with competitive bidding requirements for one public works project totaling \$1,449,500, as well as nine change orders totaling \$2,290,414 for the same project.

State bid laws are designed to protect public resources. Since the Organization did not retain documentation, it cannot be demonstrate it obtained the services at the lowest cost, that it selected the most qualified bidder, and change orders were within the scope of the original project.

Recommendation

We recommend the Organization:

- Establish internal controls over procurement to ensure compliance with state laws when contracting for public works projects
- Retain all documentation to demonstrate its compliance with competitive bidding requirements

Organization's Response

Thurston Mason Behavioral Health Organization (TMBHO) agrees with finding 2020-002 regarding the Organization's lack of adequate internal controls for ensuring compliance with state procurement regulations for public works projects.

We appreciate the thorough review conducted by your office. To rectify the identified deficiencies the following action will be taken:

- 1. Training and Awareness: Staff members involved in procurement processes will undergo additional training to learn and reinforce their understanding of procurement requirements. This training will include specific emphasis on compliance measures, documentation standards, and reporting obligations. Resources regarding procurement requirements available on the SAO's website will be utilized as a reference to ensure compliance with any projects conducted after the date of this finding.*
- 2. Enhanced Internal Controls: We will review and revise our internal controls related to procurement processes to ensure strict adherence to established guidelines. This includes a thorough review and update of procurement policy and procedures to align with state and federal regulations in regards contracting for public works projects.*

TMBHO is committed to continued improvement implementing internal controls and processes to prevent a recurrence of the identified issues from the time that they were identified.

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

Chapter 39.04 RCW – Public Works

Budgeting, Accounting and Reporting System (BARS Manual), Section 3.1.3 – Internal control

RELATED REPORTS

Financial

Our opinion on the Organization's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Organization's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Organization's major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report includes a federal finding regarding inadequate internal controls for ensuring compliance with subrecipient monitoring requirements reported. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE ORGANIZATION

Thurston-Mason Behavioral Health Organization (TMBHO) is a public entity governed by two Thurston County Commissioners and one Mason County commissioner. The BHO administers and coordinates behavioral health services for a two-county region for Medicaid eligible and low-income individuals seeking behavioral health treatment.

TMBHO operates under contracts issued by the Department and Social and Health Services (DSHS) and The Washington State Health Care Authority (HCA). State and Federal Grant funds received by TMBHO are contracted to Community Behavioral Health Agencies to provide services in the region in accordance with State and Federal guidelines.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Thurston Mason Behavioral Health Organization at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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