



Dave Yost • Auditor of State



**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Mental Health and Recovery Board  
of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, Ohio 44870-2753

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio (the Board) as of and for the year ended December 31, 2013.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Board's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Board prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Board does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Board as of December 31, 2013, or changes in financial position thereof for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio as of December 31, 2013, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Matters***

Our audit was conducted to opine on the financial statements taken as a whole. The Schedule of Federal Awards Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2015, on our consideration of the Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015

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**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts</b>			
Property Taxes	\$3,344,435		\$3,344,435
Intergovernmental	1,656,775	\$1,041,741	2,698,516
Miscellaneous	518,665		518,665
<i>Total Cash Receipts</i>	<u>5,519,875</u>	<u>1,041,741</u>	<u>6,561,616</u>
<b>Cash Disbursements</b>			
Current:			
Health:			
Salaries	388,819	515	389,334
OPERS	53,519		53,519
Fringe Benefits	80,106		80,106
Workers Compensation	2,846		2,846
Supplies and Materials	3,031		3,031
Contract Services	209,916		209,916
Advertising and Printing	836		836
Travel	13,897		13,897
Grants	5,086,244	829,460	5,915,704
Rentals	7,029		7,029
Other	66,672		66,672
Capital Outlay	498		498
Debt Service:			
Principal Retirement	15,784		15,784
Interest and Fiscal Charges	8,665		8,665
<i>Total Cash Disbursements</i>	<u>5,937,862</u>	<u>829,975</u>	<u>6,767,837</u>
<i>Net Change in Fund Cash Balances</i>	(417,987)	211,766	(206,221)
<i>Fund Cash Balances, January 1</i>	<u>2,362,770</u>	<u>436,385</u>	<u>2,799,155</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		648,151	648,151
Assigned	1,944,783		1,944,783
<i>Fund Cash Balances, December 31</i>	<u>\$1,944,783</u>	<u>\$648,151</u>	<u>\$2,592,934</u>

*The notes to the financial statements are an integral part of this statement.*

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**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio (the Board) as a body corporate and politic. An eighteen-member Board is the governing Body. The Board's Director and the legislative authorities of the political subdivisions making up the Board appoint the other Board members. The Board includes members from those legislative authorities as well as citizens of the Board. Those subdivisions are Erie and Ottawa counties. The Board provides alcohol, drug addiction and mental health services and programs to citizens of the Board. Private and public agencies are the primary service providers, through Board contracts.

The Board's management believes these financial statements present all activities for which the Board is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits and Investments**

As required by the Ohio Revised Code, the Erie County Treasurer is custodian for the Board's deposits. The County's deposit and investment pool holds the Board's assets, valued at the Treasurer's reported carrying amount.

**D. Fund Accounting**

The Board uses fund accounting to segregate cash and investments that are restricted as to use. The Board classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Board had the following significant

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Special Revenue Funds:

ODADAS Fund - This fund receives grant monies to help those struggling with alcohol and drug addictions through prevention, treatment, and recovery support services.

ODMH Fund - This fund receives grant monies to provide financial assistance for providing comprehensive community mental health services to adults with a serious mental illness and to children with a serious emotional disturbance.

**E. Budgetary Process**

The Ohio Revised Code requires the Board to adopt a budget for each fund annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Board to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Board did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2013 budgetary activity appears in Note 2.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Board must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Board classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

2. **Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. **Committed**

The Board can *commit* amounts via formal action (resolution). The Board must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Board or a Board official delegated that authority by resolution, or by State Statute.

5. **Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

The Board records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(Continued)**

**2. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2013 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,527,568	\$5,519,875	(\$7,693)
Special Revenue	538,917	1,041,741	502,824
Total	\$6,066,485	\$6,561,616	\$495,131

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$6,490,105	\$6,371,651	\$118,454
Special Revenue	829,975	829,975	
Total	\$7,320,080	\$7,201,626	\$118,454

**3. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Board.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Board.

**4. DEBT**

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Beacon Project Commercial Loan	\$94,170	5.5%
Administrative Offices Commercial Loan	48,647	4.3%
Total	\$142,817	

A commercial loan was obtained in 2009 to finance the purchase of property used by the Board for the Beacon project. The original loan was for \$118,000, with an interest rate of 6.29%, requiring 35 payments of \$1,021 through July 2012. This loan was refinanced in August of 2012. The current loan is for \$102,477 with an interest rate of 5.5%, requiring 119 payments of \$978, including interest, through July 2022, and a final estimated payment, including interest, due August 3, 2022 of \$23,135.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(Continued)**

**4. DEBT – (Continued)**

A commercial loan was originally obtained in 1998 to finance the purchase of the property used by the Board for its administrative offices. The original loan was for \$135,000. The original loan was refinanced in 2003, 2008, and 2013. The loan was refinanced in 2013 for \$53,543, with an interest rate of 4.3%, requiring 60 payments of \$995, including interest, through March 2018.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	Beacon Project Commercial Loan	Administrative Offices Commerical Loan
2014	\$11,736	\$11,940
2015	11,736	11,940
2016	11,736	11,940
2017	11,736	11,940
2018	11,736	5,391
2019-2022	62,255	
Total	<u>\$120,935</u>	<u>\$53,151</u>

**5. RETIREMENT SYSTEM**

The Board's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013, OPERS members contributed 10% of their gross salaries and the Board contributed an amount equaling 14% of participants' gross salaries. The Board has paid all contributions required through December 31, 2013.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Board has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**7. CONTINGENT LIABILITIES**

Amounts grantor agencies pay to the Board are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013  
(Continued)**

**8. MISCELLANEOUS RECEIPTS**

In 2013, General Fund Miscellaneous Receipts consist primarily of rental proceeds.

**9. COMPLIANCE**

Contrary to Ohio law, the Deputy Director of Finance and Operations posted Race to the Top – Early Learning Challenge grant receipts to the incorrect fund.



**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Mental Health and Addiction Services</i>			
ARRA - Race to the Top - Early Learning Challenge	3-FRO-13-104-04 99-0022-RTTT-C-14-1782	84.412	\$116,273 44,379
Total U.S. Department of Education			<b>160,652</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through Ohio Department of Mental Health and Addiction Services</i>			
Block Grants for Community Health Mental Services	N/A	93.958	61,936
Block Grants for Prevention and Treatment of Substance Abuse	FY13-FA/DBG&F/IVBG FY14-FA/DBG&F/IVBG FY13-FA/DBG&F/IVBG YLP FY14-FA/DBG&F/IVBG YLP	93.959	222,147 85,848 3,656 3,656
Total Block Grants for Prevention and Treatment of Substance Abuse			315,307
Social Services Block Grant	MH-15-13 MH-15-14	93.667	41,719 11,990
Total Social Services Block Grant			53,709
Total U.S. Department of Health and Human Services			<b>430,952</b>
<b>Total Federal Awards Expenditures</b>			<b>\$591,604</b>

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

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the Mental Health and Recovery Board of Erie and Ottawa Counties' (the Board's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - SUBRECIPIENTS**

The Board passes certain federal awards received from the Ohio Department of Mental Health and Addiction Services to other governments or not-for-profit agencies (subrecipients). As Note A describes, the Board reports expenditures of Federal awards to subrecipients when paid in cash. The Board paid \$315,307 to subrecipients during the year ended December 31, 2013.

As a subrecipient, the Board has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

**NOTE C - MATCHING REQUIREMENTS**

Certain federal programs require the Board to contribute non-federal funds (matching funds) to support the federally-funded programs. The Board has met its matching requirements. The Schedule does not include the expenditure of non-federal matching funds.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Mental Health and Recovery Board  
of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, Ohio 44870-2753

To the Members of the Board:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio (the Board) as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated September 25, 2015 wherein we noted the Board followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Board's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Board's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001 and 2013-002 described in the accompanying schedule of findings to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

***Entity's Response to Findings***

The Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Board's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mental Health and Recovery Board  
of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, Ohio 44870-2753

To the Members of the Board:

### ***Report on Compliance for the Major Federal Program***

We have audited the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio's (the Board's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Board's major federal program for the year ended December 31, 2013. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Board's major federal program.

### ***Management's Responsibility***

The Board's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the Board's compliance for the Board's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Board's major program. However, our audit does not provide a legal determination of the Board's compliance.

### ***Opinion on the Major Federal Program***

In our opinion, the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2013.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2013-003. This finding did not require us to modify our compliance opinion on the major federal program.

The Board's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Board's response and, accordingly, we express no opinion on it.

***Report on Internal Control Over Compliance***

The Board's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Board's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Board's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *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 federal program's compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 2013-003 to be a material weakness.

The Board's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Board's response and, accordingly, we express no opinion on it.

Mental Health and Recovery Board  
of Erie and Ottawa Counties  
Erie County  
Independent Auditor's Report on Compliance With Requirements  
Applicable to the Major Federal Program and on Internal Control Over  
Compliance Required by OMB Circular A-133  
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This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2015

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**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2013**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Block Grants for Prevention and Treatment of Substance Abuse – CFDA #93.959
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2013-001**

**Noncompliance Citation / Material Weakness**

**Ohio Rev. Code § 5705.10(D)** provides in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

The Deputy Director of Finance and Operations incorrectly accounted for Race to the Top – Early Learning Challenge receipts in the amount of \$293,783 in the General Fund during the year ended December 31, 2013. These receipts should have been posted to the ODMH Fund.

The accompanying financial statements and Board accounting records have been adjusted to reflect this change. Additionally, the financial statements and Board accounting records have been adjusted to reflect respective Race to the Top – Early Learning Challenge grant disbursements (\$160,652) and ending balance (\$133,131) in the ODMH Fund.

These errors were not identified and corrected prior to the audit due to deficiencies in the Board's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Deputy Director of Finance and Operations and the Mental Health and Recovery Board and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Board's financial statements and notes to the financial statements are complete and accurate, the Board should adopt policies and procedures, including a final review of the statements and notes by the Deputy Director of Finance and Operations and Mental Health and Recovery Board, to identify and correct errors and omissions.

**Officials' Response:**

In 2013 the Ohio Department of Mental Health and Addiction Services (ODMHAS) mis-communicated to the Board the type source of funds received for the Race To The Top grants awarded during the year. This communication resulted in the Board classifying the monies as General Fund monies in 2013. The Board's reliance on the inaccurate guidance received resulted in the improper fund classification identified above. As the Board did not receive clarification regarding the source of these monies until the draft statements had been provided for audit, the Deputy Director of Finance was unable to have recorded this correction prior to discovery during audit.

**FINDING NUMBER 2013-002**

**Material Weakness – Financial Reporting**

We identified the following errors requiring adjustment to the financial statements and or notes to the financial statements for the year ended December 31, 2013:

**FINDING NUMBER 2013-002  
(Continued)**

- The General committed fund balance in the amount of \$1,944,783 was reclassified to assigned in accordance with GASB 54;
- General Fund appropriations (budgeted expenditures) were decreased \$679,975 in order to bring the accounting system and notes in line with authorized budget amounts;
- Special Revenue fund type appropriations (budgeted expenditures) were increased \$679,975 in order to bring the accounting system and notes in line with authorized budget amounts; and
- Special Revenue assigned fund balance in the amount of \$515,020 was reclassified to restricted in accordance with GASB 54.

These errors were not identified and corrected prior to the Board preparing its financial statements due to deficiencies in the Board's internal controls over financial statement monitoring. The accompanying financial statements have been adjusted to reflect this change. Sound financial reporting is the responsibility of the Deputy Director of Finance and Operations and the Mental Health and Recovery Board and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the Board's financial statements and notes to the statements are complete and accurate, the Board should adopt policies and procedures, including a final review of the statements and notes by the Deputy Director of Finance and Operations, to identify and correct errors and omissions.

**Officials' Response:**

The Deputy Director of Finance will ensure general fund monies committed to contracts in the following year will be reflected as assigned fund balance and special revenue fund monies committed to contracts in the following year will be reflected as restricted fund balance.

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2013-003
<b>CFDA Title and Number</b>	Race to the Top – Early Learning Challenge #84.412
<b>Federal Award Number / Year</b>	3-FRO-13-104-04 99-0022-RTTT-C-14-1782
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Mental Health and Addiction Services

### **Noncompliance Citation / Material Weakness**

**OMB Circular A-133 §\_\_\_.300** provides that the auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §\_\_\_.310.

The following deficiency was noted in the Board-prepared Schedule of Federal Awards Expenditures (the Schedule):

- The ARRA – Race to the Top - Early Learning Challenge grant (\$160,652) was omitted from the Schedule.

Inaccurate completion of the Schedule could lead to inaccurate reporting of federal expenditures by the Board. Adjustments were made to the Board's Schedule as noted above. The Deputy Director of Finance and Operations cited a miscommunication with the Ohio Department of Mental Health and Addiction Services as the reason the Board did not realize these monies represented federal funds as opposed to state funds.

The Board should be knowledgeable of its federal programs and their requirements should be understood by the Board. We recommend the Board implement policies and procedures, including a final review of the Schedule, to ensure the Schedule is complete and accurate. Additionally the Board should confirm with its grantor agencies whether funding provided is derived from federal or state sources.

### **Officials' Response:**

In 2013 the Ohio Department of Mental Health and Addiction Services (ODMHAS) mis-communicated to the Board the type source of funds received for the Race To The Top grants awarded during the year. In January 2014, the Board received a modified notice of subaward in which the Deputy Director of Financial and Operations noticed a change indicating monies received represented federal funds. The Deputy Director of Administrative Services contacted ODMHAS to discuss the change in funding source; however, no response was received. In March, 2015, during a stakeholder review of the Board, the Manager of Community Monitoring at ODMHAS informed the Board the Race To The Top Grant was in fact a federal grant. As the Board did not receive clarification regarding the nature of these monies until the draft schedule of federal awards expenditures had been provided for audit, the Deputy Director of Finance was unable to have recorded this correction prior to discovery during audit. The Deputy Director of Finance and Operations will closely monitor all new grant funds awarded. When the notice of award for a new competitive grant is received a call will be made to the contact on the notice of award to ensure the type of fund is what is on the notice of award.

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
ERIE COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
DECEMBER 31, 2013**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2013-004	The Deputy Director of Finance and Operations will closely monitor all new grant funds awarded. When the notice of award for a new competitive grant is received a call will be made to the contact on the notice of award to ensure the type of fund is what is on the notice of award.	September 25, 2015	Beth B. Williams, DM

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# Dave Yost • Auditor of State

**MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES**

**ERIE COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 13, 2015**