

**Public Mental Health Centers**  
**Accounting and Auditing Manual**

**Revised, February 2024**



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February 8, 2024

TO: Users of Department of Examiners of Public Accounts Audit Manual for Audits of Public Mental Health Centers

This account and auditing manual sets forth the standards and requirements for audits of public mental health centers and is to be used for audits of fiscal years ended December 15, 2022, or later.

The objective of this audit manual is to promote better, more consistent accounting and audit coverage of the stewardship of Alabama taxpayers' money and to ensure that officials uphold the public trust.

Updates and revisions were made throughout this document in order to bring the standards and guidance provided current with applicable law. Substantive revisions are noted in red. Suggestions for improvements to this manual are welcomed and may be sent to [coordinator@alexaminers.gov](mailto:coordinator@alexaminers.gov) or by calling (334) 242-9200.

Sincerely,

Rachel Laurie Riddle  
Chief Examiner

# PUBLIC MENTAL HEALTH CENTERS

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## I. INTRODUCTION

This manual was prepared and promulgated by the Alabama Department of Examiners of Public Accounts (hereinafter, “Department”) under the authority and responsibility provided by *Ala. Code* § 22-21-4(a). This statute provides that certified public accountants, subject to the control of the Alabama State Board of Public Accountancy, may audit the books and records of publicly owned hospitals, nursing homes, rest homes, and other publicly owned medical institutions. These audits must be made in accordance with generally accepted auditing standards and shall comply with procedures promulgated by the Chief Examiner of Public Accounts.

This manual establishes uniform auditing and reporting standards for audits of mental health centers organized under the authority of *Ala. Code* § 22-51-2, which fulfill requirements of *Ala. Code* §§ 22-21-4 and 41-5A-1 through 41-5A-23. Audits of mental health centers are to be conducted in accordance with the following:

Generally Accepted Auditing Standards as promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA);

Government Auditing Standards, issued by the Comptroller General of the United States;

AICPA Audit and Accounting Guides, “State and Local Governments” and “Government Auditing Standards and Single Audits”;

Single Audit Act Amendments of 1996, (Pub. L. No. 104-156), as amended;

Alabama Department of Mental Health (DMH) Audit Guidelines;

*The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), 2 CFR Part 200; and

Appendix XI to 2 CFR Part 200 – Compliance Supplement.

Should additional guidance be issued by the authoritative accounting and auditing standard-

setting bodies, such guidance will be adopted and incorporated into this manual unless the same is specifically excluded by the Department.

The audit requirements set forth by the Uniform Guidance are located in 2 CFR part 200, subpart F. Award recipients were required to implement new administrative requirements and cost principles for all new federal awards made on or after December 26, 2014, and for funding increments (additional funding on existing awards) with modified terms and conditions awarded on or after that date. The audit requirements for the “single audit” set forth in this manual apply to all financial and compliance audits of mental health centers which expend federal awards of \$750,000 or more a year. If less than \$750,000 is expended in federal awards, the mental health center is exempt from the single audit requirements. However, records must be available for review or audit by the federal grantor agency, pass-through entity (Alabama Department of Mental Health), and/or the Department.

NOTE: As a general rule, Medicaid arrangements between the state and providers are contracts for services and not federal financial assistance; therefore, they would not be covered by the Single Audit Act.

This manual contains the various reports required by the Uniform Guidance. If you have any questions concerning the necessary reports for a particular entity, contact the Department’s Coordinator of Mental Health Audits at [coordinator@alexaminers.gov](mailto:coordinator@alexaminers.gov).

## **II. EFFECTIVE DATE**

The provisions of this manual are effective immediately upon issuance.

### **III. ENGAGEMENT OF CERTIFIED PUBLIC ACCOUNTANTS**

*Ala. Code § 22-21-4(a), states: “The books and records of publicly owned hospitals, nursing homes, rest homes or any other publicly owned medical institution may, upon request of the governing board of the particular institution, be audited annually by any certified public accountant who is subject to the control of the Alabama State Board of Public Accountancy. The selection of the certified public accountant to perform the audit shall be the responsibility of the governing board of the particular institution. . . . The audit to be performed by the certified public accountant shall . . . comply with the procedures promulgated by the Chief Examiner of Public Accounts.”*

### **IV. CONTACT WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS**

The following address should be used for correspondence with the Department:

Department of Examiners of Public Accounts  
Attn: Coordinator of Mental Health Audits  
P. O. Box 302251  
Montgomery, AL 36130-2251

The Department will provide technical assistance upon request. Requests for assistance may be submitted via e-mail to [coordinator@alexaminers.gov](mailto:coordinator@alexaminers.gov). Additionally, the auditor should contact the Department when:

- a. evidence of fraud, abuse, irregularities, or illegal acts is discovered;
- b. there is uncertainty about audit requirements; or
- c. the auditor cannot gain access to necessary records.

### **V. AUDIT SCOPE**

The scope of the audit of the financial statements must be sufficient to enable the auditor to report on the following:



- a. Fairness of presentation of the financial statements as to the financial position and the results of operations in accordance with generally accepted accounting principles.
- b. Compliance with applicable federal, state, and local governmental laws and regulations and the provisions of contract or grant agreements as well as applicable legal opinions and interpretations.
- c. Compliance with the Department of Mental Health contract/agreement, provider agreement, and all applicable laws, rules, and regulations.
- d. The internal control of the Center.
- e. The audit should include all funds under the supervision and control of the Center as well as all component units required to be included as part of the reporting entity by the Governmental Accounting Standards Board.

## **VI. STANDARDS OF FIELD WORK**

Audits are to be performed in conformity with generally accepted auditing standards and generally accepted government auditing standards contained in the Yellow Book that pertain to financial audits.

Procedures used during field work should be guided by the AICPA Audit and Accounting Guides, *State and Local Governments* and *Government Auditing Standards and Single Audits* issued by the AICPA and any applicable Statements of Position (SOP) issued by the AICPA. The auditor is not limited to these procedures and should use such procedures as are necessary to perform an audit of sufficient scope according to the required standards.

The Department has adopted certain additions to the standards for field work as described for financial audits in the Yellow Book. The Department's additions to the Yellow Book standards

for field work are as follows:

- a. Yellow Book standards require the auditor to design the audit to provide reasonable assurance of detecting misstatements resulting from violations of provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. The Chief Examiner of Public Accounts requires that tests of financial transactions be made to determine compliance with state and local statutes, ordinances, regulations and Attorney General's opinions which pertain to financial transactions regardless of the effect on the financial statements. The auditor should be knowledgeable about and report on the auditee's compliance with state and local statutes, ordinances, regulations, and Attorney General's opinions which pertain to the auditee's financial transactions both specifically as a mental health center and generally as a public institution.
- b. The Chief Examiner of Public Accounts requires that the Department's Coordinator of Mental Health Audits be consulted when legal questions arise concerning the interpretation of laws and regulations. Auditors should not release reports that involve possible noncompliance with laws and regulations without consulting first with the Department's Coordinator of Mental Health Audits.
- c. The Chief Examiner requires that the Department's Coordinator of Mental Health Audits, be notified immediately when evidence concerning the existence of fraud, abuse, or illegal acts is uncovered. The Chief Examiner will assist in determining the nature and extent of fraud, abuse, and illegal acts and in bringing any resulting charges against officials or employees.

d. In addition to standards imposed by the Yellow Book and the EPA, the Department of Mental Health has issued a publication entitled Audit Guidelines.

The auditor is required to determine whether the entity complied with the Department of Mental Health Audit Guidelines and Department of Mental Health contract/agreement, provider agreement, and all applicable laws, rules, and regulations.

## **VII. REPORTING STANDARDS**

Examples of the required financial statements, reports, and schedules are contained in Appendix I. A brief discussion of each is contained on the following pages. For additional guidance, refer to GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.

### **A. Financial Statements**

The financial statements of the Center are to be presented in conformity with generally accepted accounting principles (GAAP) for special purpose governments. GAAP consists of the statements and Interpretations of the Governmental Accounting Standards Board (GASB), as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements or Interpretations, and other guidance as outlined in the AICPA Codification of Statements on Auditing Standards. With the issuance of GASB Statement Number 62, AICPA and FASB Guidance that are applicable to governmental entities have been codified in one place. This includes the following pronouncements that were issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Boards Opinions and Accounting Research Bulletins

of the AICPA Committee on Accounting Procedures that do not conflict with or contradict GASB pronouncements. The requirements of GASB Statement No. 62 were effective for financial statements for periods beginning after December 15, 2011.

The key to determining the appropriate financial reporting model for a mental health center is determining whether it has governmental activities, business-type activities (BTA), or both. Generally, governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services (GASB Codification 1300.109). The required financial statements for a mental health center depend on whether the center is engaged in more than one governmental program or has both governmental and business-type activities or is engaged only in providing business-type activities. This determination should be based on auditor judgment in consultation with the management of the mental health center.

Many mental health centers may choose to report as an entity engaged only in BTA. For this reason, the BTA reporting model is illustrated in Appendix I. The illustrated financial statement examples contained in Appendix I should not be interpreted as an endorsement of one method of presentation over another presentation method allowable under GAAP. A mental health center may choose to report as a special-purpose government engaged in governmental activities or one engaged in both governmental and business-type activities. If other presentation methods are chosen, the reporting guidance in GASB Codification Sp20 should be followed.

If the mental health center reports as an entity engaged only in BTA, it should present only the financial statements required for enterprise funds. The basic financial statements and required supplementary information (RSI) for a mental health center reporting as a BTA are as

follows:

- Management's Discussion and Analysis (MD &A);
- Enterprise fund financial statements consisting of:
  - a. Statement of net position;
  - b. Statement of revenues, expenses, and changes in fund net position;
  - c. Statement of cash flows;
- Notes to the financial statements; and
- RSI other than MD&A, if applicable.

(See GASB Codification Sp20.113).

Assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities. Governments are encouraged to present their proprietary funds in a net position format – assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources equal net position, although a balance sheet format – assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position – may be used. Regardless of the format used, the proprietary funds should report the residual amount as net position, rather than net assets, proprietary fund balance, or equity (See GASB Codification P80.111). The entity should also establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies and use it consistently from period to period. (See GASB Codification P80.115).

Disclosures relating to the financial statements should be in conformity with disclosure

requirements set forth by the GASB. A list of common note disclosures is included in Appendix I. For additional guidance refer to the GASB *Codification of Governmental Accounting and Financial Reporting Standards*.

## **B. Required Supplementary Information (RSI)**

Required Supplementary Information (RSI) is financial information that GASB standards require to be presented with, but outside of, the basic financial statements. Depending on a center's specific circumstances, **six** types of RSI may be required: (1) Management's Discussion and Analysis (MD&A), (2) Budgetary Comparison Schedule, (3) Infrastructure Condition and Maintenance Data (for centers using the modified approach for infrastructure assets), (4) Pension Data (for certain pension plans and participating employers), (5) Other Postemployment Benefits (OPEB) Data, and (6) Revenue and Claims Development Trend Data (for public entity risk pools). The MD&A and Pension Data will be the most commonly applicable type of RSI for mental health centers. If the center reports governmental activities and presents fund financial statements, a budgetary comparison schedule is required for the general fund and for each major special revenue fund that has a legally adopted annual budget. More detailed guidance regarding the other types of RSI can be found in the GASB Codification.

Normally, RSI is presented following the Notes to the Financial Statements. However, MD&A information is the exception and should be presented preceding the financial statements. All other applicable RSI should be presented after the Notes.

Management's Discussion and Analysis - The MD&A **should be prepared by the entity's management** and should provide an objective and easily readable analysis of the center's financial activities based on currently known facts, decisions, or conditions. The MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This

fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The information required to be reported in the MD&A is general rather than specific in order to encourage financial managers to effectively report only the most relevant information and to avoid “boilerplate” discussion. The information presented should be confined to the items outlined in GASB Codification 2200.109.

Pension Schedules – If the mental health center provides pension benefits as a single-employer (Single), agent multiple-employer (Agent) or a cost-sharing employer, the following information should be presented as RSI for a ten (10) year period (for additional guidance, refer to GASB Codification of Governmental Accounting and Financial Reporting Standards P20):

- Single and Agent Employers – a schedule of changes in the net pension liability and a schedule of employer contributions should be presented for each single-employer and agent pension plan through which pensions are provided. The net pension liability information (e.g. changes in net pension information, total pension liability, the pension plan’s fiduciary net position, net pension liability, the pension plan’s fiduciary net position as a percentage of the total pension liability, covered payroll, and net pension liability as a percentage of covered-payroll) should be determined as of the measurement date of the net pension liability and may be presented in a single schedule. The employer contributions (actuarially determined calculation or not) should be determined as of the employer’s most recent fiscal year-end and presented in a 10-year schedule with required elements as specified in the aforementioned GASB codification. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the required schedules.
- Cost-Sharing Employers – a 10-year schedule should be presented to provide the

employer's proportionate share of the collective net pension liability. In addition, a 10-year schedule should be presented of statutorily or contractually required contributions. See GASB codification section P20 for data elements required to be included in the schedules. Information about factors that significantly affect trends in the amounts reported in the schedules should be reported as notes to the schedules.

OPEB Schedules – If the mental health center provides OPEB benefits as a single-employer (Single), agent multiple-employer (Agent) or a cost-sharing employer, the following information should be presented as RSI for a ten (10) year period (for additional guidance, refer to GASB Codification of Governmental Accounting and Financial Reporting Standards P50):

- Single and Agent Employers – a schedule of changes in the OPEB liability and a schedule of employer contributions should be presented for each single-employer and agent OPEB plan through which OPEBs are provided. The OPEB liability information (e.g. changes in OPEB information, total OPEB liability, the OPEB plan's fiduciary net position, net OPEB liability, the OPEB plan's fiduciary net position as a percentage of the OPEB liability, covered payroll, and net OPEB liability as a percentage of covered-payroll) should be determined as of the measurement date of the OPEB liability and may be presented in a single schedule. The employer contributions (actuarially determined calculation or not) should be determined as of the employer's most recent fiscal year-end and presented in a 10-year schedule with required elements as specified in the aforementioned GASB codification. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the required schedules.



- Cost-Sharing Employers – a 10-year schedule should be presented to provide the employer’s proportionate share of the collective OPEB liability. In addition, a 10-year schedule should be presented of statutorily or contractually required contributions. See GASB codification section P50 for data elements required to be included in the schedules. Information about factors that significantly affect trends in the amounts reported in the schedules should be reported as notes to the schedules.

### **C. Financial and Legal Compliance Audits**

Auditors should follow the guidance in this manual, the Department of Mental Health Audit Guidelines, generally accepted auditing standards promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), ***Government Auditing Standards*** issued by the Comptroller General of the United States, and other applicable AICPA pronouncements and Statements of Positions (SOPs). Auditors are required to perform tests of compliance in every audit of public mental health centers.

Audits performed in accordance with generally accepted government auditing standards require a “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.” Specific discussion and guidance on this report follows:

1. 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*.

The purpose of this report is to: (1) report any significant deficiencies (including material weaknesses) which are identified as a result of performing the audit of the financial statements, and (2) report occurrences of noncompliance with provisions of laws, regulations, contracts, and grants

which could have a direct and material effect on the required financial statements, as well as abuse. An example of this report is contained in Appendix I.

In addition, the Department of Mental Health requires a “Report on Compliance with Department of Mental Health Contract”. The purpose of this report is to report whether the entity has complied with the Department of Mental Health’s contract/agreement, provider agreement, and all applicable laws, rules and regulations. Examples are included in Appendix I. Additional guidance concerning this report can be found in the Department of Mental Health’s Audit Guidelines.

#### **D. Federal Compliance Audits (Uniform Guidance Audits)**

Federal Single Audits should be performed in accordance with the Single Audit Act Amendments of 1996, Uniform Guidance, generally accepted auditing standards, and *Government Auditing Standards* issued by the Comptroller General of the United States. The Uniform Guidance contains detailed provisions regarding the auditee’s responsibilities, the auditor’s responsibilities, and the Federal agency and pass-through entity’s responsibilities. The auditor should be familiar with and follow the guidance provided in the Uniform Guidance. Some of the key provisions are discussed below:

##### **1. Reporting Package**

The reporting package should include the following:

- a. Financial statements (including the notes and any RSI) and Schedule of Expenditures of Federal Awards;
- b. Summary Schedule of Prior Audit Findings;
- c. Auditor’s reports (See discussion below); and
- d. Corrective Action Plan.

2. Auditee's Responsibility

a) Schedule of Expenditures of Federal Awards

The auditee is required to prepare the Schedule of Expenditures of Federal Awards for the period covered by the auditee's financial statements. An example of this Schedule is included in Appendix I for illustrative purposes. At a minimum the Schedule should contain the following (Uniform Guidance, 2 CFR 200.510(b)):

(1) A list of individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through.

(3) Total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.

(4) Include the total amount provided to subrecipients from each Federal program.

(5) For loan or loan guarantee programs described in Section 200.502 of the Uniform Guidance: (a) basis for determining Federal awards expended and (b) identify in the Notes to the schedule the balance outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the Schedule.

(6) Include notes that describe that significant accounting policies used in preparing the Schedule and note whether the non-Federal entity elected to use the 10%

de minimis cost rate as covered in Section 200.414 of the Uniform Guidance.

b) Summary Schedule of Prior Audit Findings

The auditee is responsible for follow-up and corrective action on audit findings. To fulfill this responsibility the auditee is required to prepare a “Summary Schedule of Prior Audit Findings” to report the status of all audit findings included in the prior audit’s Schedule of Findings and Questioned Costs. It should include the reference numbers the auditor assigns to each audit finding. Since it may include audit findings from multiple years, it should include the fiscal year in which the finding initially occurred. This schedule should include, as a minimum, all of the information required by the Uniform Guidance, Section 200.511(b).

c) Corrective Action Plan

The auditee is required to prepare a corrective action plan which addresses each audit finding included in the current year auditor’s reports (including the reference numbers the auditor assigns to each audit finding) and should provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, the corrective action plan must include an explanation and specific reasons. (Uniform Guidance, Section 200.511(c)).

d) Data Collection Form

The auditee is required to submit a data collection form, which states whether the audit was completed in accordance with the Uniform Guidance and provides

information about the auditee, its Federal programs, and the results of the audit. (See Section 200.512(b) of the Uniform Guidance) The cover letter accompanying the final report that is sent to the Coordinator of Mental Health Audits should state if the Data Collection Form has been submitted to the Federal Audit Clearing House. The Summary Schedule of Prior Audit Findings and the Corrective Action Plan are a required part of the reporting package and should be included in the reporting package submitted to the Chief Examiner. A complete discussion of the auditee's responsibilities is contained in Section 200.508 of the Uniform Guidance.

3. Auditor's Reports and Schedules

The auditor should prepare the following reports and schedules. Examples of these reports and schedules are included in Appendix I.

a) Independent Auditor's Report

This report provides an opinion or disclaimer of opinion as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the Schedule of Expenditures of Federal Awards is presented fairly in all material respects in relation to the financial statements taken as a whole. (See Example in Appendix I).

b) 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

The purpose of this report is to: (1) report any significant deficiencies (including material weaknesses) which are identified as a result of performing the audit of the

financial statements, and (2) report occurrences of noncompliance with provisions of laws, regulations, contracts and grants which could have a direct and material effect on the required financial statements, as well as abuse. (See Example in Appendix I).

c) Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance As Required by the Uniform Guidance

The purpose of this report is to: (1) report on compliance with laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the entity's federal programs, noncompliance with which could have a direct and material effect on each major program, and (2) report on the entity's internal control over compliance with laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the entity's federal programs. (See Example in Appendix I).

d) Schedule of Findings and Questioned Costs

This schedule should contain each audit finding with a corresponding reference number to allow for easy referencing of the audit findings during follow-up (See Uniform Guidance, Section 200.516 (c)). An example of a Schedule of Findings and Questioned Costs is included in Appendix I. It is for illustrative purposes only. The Schedule of Findings and Questioned Costs should include the following three components (Uniform Guidance, Section 200.515(d)):

1. Summary of the Auditor's Results which should include:

- a. the type of report issued on whether the financial statements were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);

- b. statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
  - c. a statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;
  - d. Statement about whether significant deficiencies or material weaknesses in internal control over major federal programs were disclosed by the audit;
  - e. The type of report the auditor issued on compliance for major federal programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
  - f. A statement as to whether the audit disclosed any audit findings, which the auditor is required to report under Section 200.516(a) of the Uniform Guidance;
  - g. an identification of major programs by listing each individual major program (in the case of a cluster of programs, only the cluster name as shown on the Schedule of Expenditures of Federal Awards is required);
  - h. the dollar threshold used to distinguish between Type A and Type B programs; and
  - i. a statement as to whether the auditee qualified as a low-risk auditee in accordance with Section 200.520 of the Uniform Guidance.
2. Findings relating to the financial statements which are required to be reported in accordance with ***Government Auditing Standards***.
  3. Findings and questioned costs for Federal awards which must include audit

findings as defined in Section 200.516(a) of the Uniform Guidance. Section 200.516(a) of the Uniform Guidance requires the auditor to report the following as audit findings in the Schedule of Findings and Questioned Costs:

- a. Significant deficiencies and material weaknesses in internal control over major programs and significant instances of abuse relating to major programs. The auditor's determination of whether a deficiency in internal control is a significant deficiency or material weakness for the purpose of reporting an audit finding is in relation to **a type of compliance requirement for a major program** identified in the *Compliance Supplement*.
- b. Material noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards related to a major program. The auditor's determination of whether noncompliance with the provisions of Federal statutes, regulations, or the terms and conditions of Federal awards is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program identified in the *Compliance Supplement*.
- c. Known questioned costs, which are greater than \$25,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned



costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor must include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.

- d. Known questioned costs, which are greater than \$25,000 for a Federal program, which is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program that is not audited as a major program (e.g. as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$25,000, then the auditor must report this as an audit finding.
- e. The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the Schedule of Findings and Questioned Costs for Federal awards.
- f. Known or likely fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the Schedule of Findings and Questioned Costs for Federal Awards.
- g. Significant instances of abuse relating to major programs, that is abuse that is either quantitatively or qualitatively material to a major program.
- h. Instances where the results of audit follow-up procedures disclosed that the Summary Schedule of Prior Audit Findings prepared by the

auditee materially misrepresents the status of any prior audit finding.

Audit findings should be presented in sufficient detail and clarity for the auditee to prepare a Corrective Action Plan and take corrective action, and for Federal agencies and pass-through entities to arrive at a management decision. Audit findings must contain the specific information outlined in Section 200.516(b) of the Uniform Guidance.

*Note: A Schedule of Findings and Questioned Costs will always be required when a Single Audit is conducted, even if the audit did not disclose any significant deficiencies or instances of noncompliance, due to the information required to be reported under “Summary of Auditor’s Results.”*

#### **E. Additional Reporting Requirements**

The Department has adopted the following additional reporting requirements:

1. In addition to the reporting responsibilities regarding fraud, illegal acts, violations of provisions of contracts or grant agreements, other noncompliance with laws and regulations or abuse contained in the Yellow Book, the Chief Examiner of Public Accounts requires that the Department’s Coordinator of Mental Health Audits also be notified.
2. The Chief Examiner requires that the Department’s Coordinator of Mental Health Audits be notified of any indications of fraud, illegal acts, violations of provisions of contracts or grant agreements, other noncompliance with laws and regulations or abuse prior to preparation of the final report. A Schedule of Board Members should be included. Refer to the example report in Appendix I of this Manual for guidance concerning the format and content of this schedule.

### **VIII. PROCEDURES FOR REPORTING**

## **A. Form and Content**

The overall format of the report should generally be as shown in the example report (Appendix I). As discussed previously, the format and content of the financial statements will vary depending on the reporting model for the individual mental health center.

The appropriate note disclosures are a matter of professional judgment and will vary depending on the reporting model and the specific circumstances. Included in Appendix I is an outline of note disclosures which are typically applicable to governmental entities. Professional judgment, along with materiality considerations, should be used in determining which disclosures are appropriate for a fair presentation in accordance with GAAP for a particular mental health center.

## **B. SAFE Program**

Mental Health Centers organized pursuant to *Ala. Code* § 22-51-2 are subject to the provisions of the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The fact that public mental health centers are subject to the SAFE Act has an impact on the information required by generally accepted accounting principles to be disclosed in the notes to the financial statements on audits of these centers. Auditors performing audits of the public mental health centers should be aware of the provisions so that they can determine compliance with the Act and ensure the appropriate note disclosure is made.

Public mental health centers' monies that have been deposited with financial institutions or banks in accordance with the provisions of the SAFE Program are considered fully insured and collateralized. Below is a brief summary of the provisions of the SAFE Program:

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in *Ala. Code* § 41-14A-1 through 41-14A-14. All public entities covered

under the SAFE Program are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs). These public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30th to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.

*Ala. Code § 41-14A-3*, as amended by Act No. 2009-471 allows hospitals to enter into agreements with banks that are covered by the SAFE Program to purchase certificates of deposit (CDs) on the hospital's behalf with other federally insured banks or savings association in such amounts so that the hospital's deposits, including any accrued interest, are fully covered by FDIC. If complied with, this arrangement generally eliminates custodial credit risk.

The auditor should perform procedures to determine whether the provisions of the SAFE Act have been complied with and ensure that the appropriate disclosures have been made in the notes to the financial statements.

### **C. Special Reports**

All management letters and audit reports submitted to the auditee must also be submitted to the Chief Examiner of Public Accounts along with the copies of the audit report. The

management letter will become part of the permanent file.

#### **D. Audit Report Distribution**

A draft copy of the report may be sent to the Coordinator of Mental Health Audits upon completion of the audit. After review of the draft copy, the Coordinator of Mental Health Audits will notify the auditor of any changes that should be made to the report before it is published. The auditor should mail six (6) copies of the final report to the Coordinator of Mental Health Audits. The cover letter accompanying the final report should state if the auditor has delivered copies of the report to the board of the hospital being audited. Reports must be forwarded to the Chief Examiner of Public Accounts, postpaid, by registered mail not later than March 31st of the year following the end of the audit period. Reports are not considered final until formally approved and released by the Chief Examiner of Public Accounts. The auditor may issue the same basic financial statements contained in the report forwarded to the Chief Examiner to the auditee to satisfy the requirements of other financial statement users. The auditor should submit one copy for the Chairman of the Board and one copy for each Board member. The following address information should be used to send in the copies of the final report depending on the method of delivery:

Physical Address:  
401 Adams Ave  
Suite 280  
Montgomery, AL 36104

Mailing:  
P.O. Box 302251  
Montgomery, AL 36130-2251

Additionally, a .pdf copy of the final report should be e-mailed to the Coordinator of Mental Health Audits at the following e-mail address: [coordinator@alexaminers.gov](mailto:coordinator@alexaminers.gov). The distribution and release of the reports forwarded to the Department is the responsibility of the Chief Examiner.

#### **E. Additional Statements on Auditing Standards and Accounting Pronouncements**

As additional statements on auditing standards and accounting pronouncements are issued by applicable standards setting bodies (AICPA, GASB, Comptroller General of the United States, etc.), they will be adopted and incorporated into this manual unless the Chief Examiner specifically excludes them.

When new pronouncements are issued, the Department of Examiners of Public Accounts will strive to update the manual in a timely manner. However, it is the responsibility of the auditor to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles and that the audit is conducted in accordance with all applicable auditing standards.

**APPENDIX I – SAMPLE AUDIT REPORT OF MENTAL HEALTH CENTER BOARD**  
**SEPTEMBER 30, 2XXX**

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OMB Data Collection Form – This form should be submitted to the Federal Audit Clearing House by the auditor. The cover letter for the final report should state that this form has been sent to the Federal Audit Clearing House. (Not Illustrated)

# Independent Auditor's Report<sup>1</sup>

[To the President and Members of the Board of Directors]<sup>2</sup>

## Report on the Audit of the Financial Statements

### Opinion

We have audited the **accompanying** financial statements of the \_\_\_\_\_ (governmental activities, the business-type activities, each major fund, etc.), of the \_\_\_\_\_ Mental Health Board, Inc., as of and for the years ended September 30, 20 \_\_, and 20 \_\_, and the related notes to the financial statements, which collectively comprise the Mental Health Board, Inc.'s basic financial statements as listed in the table of contents as Exhibits \_\_\_\_ through \_\_\_\_.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the \_\_\_\_\_ (governmental activities, the business-type activities, each major fund, etc.), of the Mental Health Board, Inc. as of September 30, 20 \_\_, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States. 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 \_\_\_\_\_ Mental Health Board, Inc. 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 opinions.

**Emphasis of Matter** [See AU-C sections 706.08 - .09] – *in year of implementation only for adoption of new Accounting Standards*<sup>3</sup>

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<sup>1</sup> Illustrative report after implementation of the new reporting SASs.

<sup>2</sup> Include the appropriate addressee and address for example: Management and Members of Board of Directors, Anytown, AL. The report should be addressed to the appropriate member (s) of management and/or those charged with governance.

<sup>3</sup> The following is an example of an emphasis of matter paragraph for change in accounting principle resulting from the adoption of a new accounting pronouncement: "As described in Note X to the financial statements, in 20X1, the \_\_\_\_\_ Mental Health Board adopted new accounting guidance, GASB Statement Number 87, *Leases*. Our opinion is not modified with respect to this matter."

As discussed in Note \_\_\_\_ to the financial statements, {Describe the matters to be emphasized – Implementation of new GASB Statement, major subsequent events, major litigations, etc.}. Our opinion on the basic financial statements is not modified with respect to this matter. [See AU-C sections 708.07 - .12 and 708.A7]

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 \_\_\_\_\_ Mental Health Board Inc.'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise a substantial doubt shortly thereafter.<sup>4</sup>

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 auditing standards generally accepted in the United States of America 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.

In performing an audit in accordance with GAAS and ***Government Auditing Standards***, we

- 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.

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<sup>4</sup> According to paragraph .32 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, the auditor should describe management's responsibility for going concern when required by the applicable financial reporting framework. The time period has been modified according to the requirements of paragraph 16 in GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

- 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 \_\_\_\_\_ Mental Health Board, Inc.’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 judgement, there are conditions or events, considered in the aggregate, that raise a substantial doubt about the \_\_\_\_\_ Mental Health Board, Inc.’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate to 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.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the [*identify the required supplementary information, such as management’s discussion and analysis, applicable pension as well as analysis and budgetary comparison information*], on pages XX-XX and XX-XX, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary Information<sup>5</sup>

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the \_\_\_\_\_ Mental Health Board, Inc.’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost*

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<sup>5</sup> This illustration assumes that the auditor has been engaged to provide an “in-relation-to” opinion on SI, the auditor is issuing an unmodified opinion on the financial statements, and the auditor has concluded that the SI is fairly stated, in all material respects, in relation to the financial statements as a whole. IF there is no SI on which to report, this section would be deleted. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*.

***Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*** [identify any other supplementary information, such as combining and individual fund financial statements] are presented for the purpose of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the (identify accompanying supplementary information) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Information<sup>6</sup>**

Management is responsible for the other information included in the annual report. The other information comprises the (identify other information, such as the introductory and statistical sections) but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work we performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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<sup>6</sup> This other information (OI) section of the report illustrates a situation where OI is included in the annual report and all information was obtained prior to the date of the auditor's report, the auditor has applied the specified procedures, no uncorrected material misstatements of the OI exist, and the auditor is issuing an unmodified opinion on the financial statements. If the auditor has concluded that an uncorrected material misstatement of the OI exists or if the auditor has issued an opinion other than unmodified on the financial statements, refer to the guidance in AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

## Other Reporting Required by Government Auditing Standards<sup>7</sup>

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the \_\_\_\_\_ Mental Health Board, Inc.'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. The purpose of that report is solely to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the \_\_\_\_\_ Mental Health Board, Inc.'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 \_\_\_\_\_ Mental Health Board, Inc.'s internal control over financial reporting and compliance.<sup>8</sup>

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Signature/Firm Name

City, State

DATE - (Auditor's Opinion Date)

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<sup>7</sup> This is an example of reporting for an audit performed in accordance with *Government Auditing Standards*. However, the form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities if any. The auditor may have additional responsibilities to report on matters that are supplementary to the auditor's responsibility under generally accepted auditing standards. When there are such other reporting responsibilities, they should be addressed in a separate section in the auditor's report. The form and content of the "Other Reporting Responsibilities" section of the auditor's report are described in paragraph .37 of AU-C section 700, *Forming and Opinion and Reporting on Financial Statements (AICPA, Professional Standards)*. Paragraph .37 of AU-C section 700 also provides that the section related to an auditor's other reporting responsibilities should be subtitled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the content of the section. Since this example reflects reporting for an audit performed in accordance with *Government Auditing Standards*, it is alternatively titled to reflect the content of the section as specified in paragraph .37 of AU-C section 700.

<sup>8</sup> See AICPA Audit Guide, *Government Auditing Standards and Single Audits*, for illustrations of the reporting required by *Government Auditing Standards* and other information on planning, performing and reporting on the audit in accordance with *Government Auditing Standards*.

**Mental Health Board, Inc.**

**Statement of Net Position**  
**September 30, 2XX1 and 2XX0 (In Thousands)**

	20XX	20XX
<b><u>ASSETS</u></b>		
<b><u>Current Assets</u></b>		
Cash and Cash Equivalents	\$XXXXXX	\$XXXXXX
Short Term Investments	XXXXXX	XXXXXX
Patient Receivables, Less Allowance for Uncollectible Receivables of \$2,125 in 2XX7 and \$2,040 in 2XX6	XXXXXX	XXXXXX
Drug Inventory	XXXXXX	XXXXXX
Prepaid Expenses	XXXXXX	XXXXXX
Supplies	XXXXXX	XXXXXX
Other Assets	XXXXXX	XXXXXX
Total Current Assets	XXXXXX	XXXXXX
<b><u>NonCurrent Assets</u></b>		
Restricted Cash and Cash Equivalents	XXXXXX	XXXXXX
Capital Assets: Land	XXXXXX	XXXXXX
Depreciable buildings, property and equipment, net	XXXXXX	XXXXXX
Total Noncurrent Assets	XXXXXX	XXXXXX
Total Assets	\$XXXXXX	\$XXXXXX
<b><u>Deferred Outflows of Resources</u></b>		
Related to Defined Benefit Pension Plan	\$XXXXXX	\$XXXXXX
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities</u></b>		
Accounts Payable	\$XXXXXX	\$XXXXXX
Accrued Salaries	XXXXXX	XXXXXX
Accrued Payroll Taxes	XXXXXX	XXXXXX
Accrued Interest Payable	XXXXXX	XXXXXX
Compensated Absences	XXXXXX	XXXXXX
Notes Payable	XXXXXX	XXXXXX
Other Liabilities	XXXXXX	XXXXXX
Total Current Liabilities	XXXXXX	XXXXXX
<b><u>Noncurrent Liabilities</u></b>		
Net Pension Liability	XXXXXX	XXXXXX
Compensated Absences	XXXXXX	XXXXXX
Notes Payable	XXXXXX	XXXXXX
Other Liabilities	XXXXXX	XXXXXX
Total Noncurrent Liabilities	XXXXXX	XXXXXX
Total Liabilities	XXXXXX	XXXXXX
<b><u>Deferred Inflows of Resources</u></b>		
Related to Defined Benefit Pension Plan	XXXXXX	XXXXXX
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	XXXXXX	XXXXXX
Restricted for:		
Debt Service	XXXXXX	XXXXXX
Other	XXXXXX	XXXXXX
Unrestricted	XXXXXX	XXXXXX
Total Net Position	\$XXXXXX	\$XXXXXX

The accompanying Notes to the Financial Statements are an integral part of these financial statements

**Mental Health Board, Inc.**

**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended September 30, 2XX1 and 2XX0**

	<u>20XX</u>	<u>20XX</u>
<b><u>OPERATING REVENUES</u></b>		
Patient Fees, net (See Note XX)	\$XXXXX	\$XXXXX
Federal Grants and Contracts	XXXXX	XXXXX
State and Local Grants and Contracts	XXXXX	XXXXX
Other Operating Revenues	XXXXX	XXXXX
Total Operating Revenues	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>OPERATING EXPENSES*</u></b>		
Salaries and Fringe Benefits	XXXXX	XXXXX
Insurance	XXXXX	XXXXX
Depreciation	XXXXX	XXXXX
Utilities	XXXXX	XXXXX
Travel	XXXXX	XXXXX
Other	XXXXX	XXXXX
Total Operating Expenses	<u>XXXXX</u>	<u>XXXXX</u>
Operating Income (Loss)	<u>XXXXX</u>	<u>XXXXX</u>
<b><u>NONOPERATING REVENUES (EXPENSES)</u></b>		
Investment Income (net of investment expense of \$ XXXX)	XXXXX	XXXXX
Contributions	XXXXX	XXXXX
Interest on Capital Asset-Related Debt	XXXXX	XXXXX
Net Nonoperating Revenues (Expenses)	<u>XXXXX</u>	<u>XXXXX</u>
Income Before Other Revenue, Expenses, Gains or Losses	<u>XXXXX</u>	<u>XXXXX</u>
Capital Grants and Gifts	<u>XXXXX</u>	<u>XXXXX</u>
Increase (Decrease) in Net Position	XXXXX	XXXXX
Net Position - Beginning of Year	<u>XXXXX</u>	<u>XXXXX</u>
Net Position - End of Year	<u>\$XXXXX</u>	<u>\$XXXXX</u>

\* - This example uses the "natural" classification for expenses. Some entities may choose to report expenses by function

The accompanying Notes to the Financial Statements are an integral part of these financial statements.



**Statements of Cash Flows**  
For the Years Ended September 30, 2XX7 and 2XX6  
(In Thousands)

	<u>20XX</u>	<u>20XX</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash Received from Patients	\$XXXXXX	\$XXXXXX
Payments to Employees	XXXXXX	XXXXXX
Payments to Suppliers and Others	XXXXXX	XXXXXX
Other Receipts (Payments)	XXXXXX	XXXXXX
Net Cash Provided (Used) by Noncapital Financing Activities	XXXXXX	XXXXXX
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>		
Gifts and Grants received for other than Capital Purposes	XXXXXX	XXXXXX
Net Cash Provided (Used) by Noncapital Financing Activities	XXXXXX	XXXXXX
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>		
Proceeds from Capital Debt	XXXXXX	XXXXXX
Capital Grants and Gifts	XXXXXX	XXXXXX
Proceeds from Sale of Capital Assets	XXXXXX	XXXXXX
Purchases of Capital Assets Principal	XXXXXX	XXXXXX
Paid on Capital Debt Interest	XXXXXX	XXXXXX
Paid on Capital Debt	XXXXXX	XXXXXX
Net Cash Provided (Used) by Capital and Related Financing Activities	XXXXXX	XXXXXX
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from Sales and Maturities of Investments	XXXXXX	XXXXXX
Interest on Investments	XXXXXX	XXXXXX
Purchase of Investments	XXXXXX	XXXXXX
Net Cash Provided (Used) by Investing Activities	XXXXXX	XXXXXX
Net Increase (Decrease) in Cash and Cash Equivalents	XXXXXX	XXXXXX
Cash and Cash Equivalents - Beginning of Year	XXXXXX	XXXXXX
Cash and Cash Equivalents - Ending of Year	XXXXXX	XXXXXX
<b><u>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</u></b>		
Operating Income (Loss)		
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided(Used) by Operating Activities:		
Depreciation Expense		
Changes in Assets and Liabilities:		
(Increase)/Decrease in Patient Receivables, net		
(Increase)/Decrease in Inventory		
(Increase)/Decrease in Prepaid Expenses and Supplies		
(Increase)/Decrease in Deferred outflows of resources – Pension related		
(Increase)/Decrease in Other Assets		
Increase/(Decrease) in Accounts Payable		
Increase/(Decrease) in Accrued Salaries and Payroll Taxes		
Increase/(Decrease) in Accrued Interest Payable		
Increase/(Decrease) in Compensated Absences		
Increase/(Decrease) in Net Pension Liability		
Increase/(Decrease) in Deferred Inflows of Resources – Pension related		
Increase/(Decrease) in Other Liabilities		
Net Cash Provided (Used) by Operating Activities		

Note: The required information about noncash investing, capital, and financial activities is not illustrated

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20XX through September 30, 20XX**

**Note:** Professional judgment along with materiality considerations should be used in determining which disclosures are appropriate for a fair presentation in accordance with GAAP. The notes should provide the necessary disclosure of material items, the omission of which would cause the financial statements to be misleading. [See GASB Codification, Section 2300 for additional information on required disclosures.]

1. Summary of Significant Accounting Policies
A. Reporting Entity (GASB Cod. Sec. 2300.110-116, 2400.103, 2600.122)
B. Government-Wide and Fund Financial Statements
(1) Description of government-wide financial statements (GASB Cod. Sec. 2200.111 and 2300.106a(1))
(2) Description of component units included in reporting entity and relationship to primary government; criteria used to include component units and how they are reported. (GASB Cod. Sec. 2600.110 and .126-.127)
(3) Transactions included in program revenues and policy for allocating indirect expenses to functions (GASB Cod. Sec. 2200.135 - .140 and .142)
(4) Fund Statements and activities accounted for in each major fund, nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds by fund type (GASB Cod. Sec. 2300.901, GASB Cod. Sec. 1300.127)
C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(1) Measurement Focus & Basic of Accounting used in government-wide (GASB Cod Sec 1600.103 - .104, GASB Cod. Sec. 2300.106a(4)) and fund financial statements
(2) Policy for eliminating internal activities (GASB Cod. Sec. 2200.153, GASB Cod. Sec. 2300.106a(6))
(3) Revenue recognition policies used in fund financial statements (GASB Cod. Sec. 1600.106 - .115; .130; .138, GASB Cod. Sec. 2300.106a(5))
(4) Restricted/Unrestricted resources used (GASB Cod. Sec. 1800.157 - .160)
(5) Operating and Nonoperating Revenues (GASB Cod Sec. P80.115, GASB Cod. Sec. 2300.106a(10))
(6) Effect of component units with differing fiscal years. (GASB Cod. Sec. 2300.107p, 2600.121)
D. Assets, Deferred Outflow of Resources, Liabilities, Deferred Inflows of Resources, and Net Position/Fund Balances (describe in order of appearance)
(1) Deposits and Investments (GASB Cod Sec. 2450.106 - .108) (GASB Cod. Sec. 2300.106b, Section C20; GASB Cod. Sec. 2300.106c, Section I50)
(2) Reverse Repurchase and Dollar Reverse Repurchase Agreements (GASB Cod. Sec. 2300.107r, I55.106 - .114)
(3) Receivables
(4) Inventories (GASB Cod. Sec I40.114)
(5) Prepaid Items
(6) Capital Assets (GASB Cod. Sec. 1400.122, GASB Cod. Sec. 1400.146-.147, GASB Cod. Sec. 2300.117-.119 and .121)
(a) Policy for capitalizing assets and estimating useful lives (GASB Cod. Sec. 1400.102 and .104)

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20XX through September 30, 20XX**

(b) Modified Approach (GASB Cod. Section 1400.105-.108)
(7) Deferred Outflows of Resources
(8) Right-to-Use Lease Asset and Lease Liability (GASB Cod. Sec. 2300.117-.120)
(9) Right-to-Use Subscription Asset and Subscription Liability (GASB Cod. Sec. 2300.117-.121, GASB Cod. Sec. S80 p..157-.158)
(10) Long-Term Obligations (GASB Cod. 2300.120-.121)
(a) Bond Discounts/Premiums
(11) Compensated Absences (GASB Cod. 2300.120, GASB Cod. Sec. C60-.107-.111)
(12) Deferred Inflows of Resources
(13) Net Position (GASB Cod. Sec. 1800.156-.165)
(14) Fund Balance Classification Details (GASB Cod. Section 1800.166-.178, .184 - .186) a. Committed Fund Balance – government’s highest level of decision-making authority and formal action required to establish, modify or rescind fund balance commitment. b. Assigned Fund Balance – i. the body or official authorized to assign amounts to a specific purpose ii. the policy established by the governing body pursuant to that authority given. c. The Nature of the net resources reported in a governmental fund, required by Section 1800.178
(15) Fund Balance Classification Policies and Procedures (GASB Cod. Section 1800.179-.180 and .183)
(16) Minimum Fund Balance Policies (GASB Cod. Section 1800.188)
2. Reconciliation of Government-Wide and Fund Financial Statements (GASB Cod. Sec. 2300.107dd, GASB Cod. Sec. 2200.160 and .169) Use only when information in exhibits is aggregated and obscures individual elements of reconciling items.
3. Stabilization Arrangements (See GASB Cod. Section 1800.181-.182 and .187)
4. Information about Major Special Revenue Funds (See Section GASB Cod. Sec. 2300.107pp, Sec. 1300.105)
5. Stewardship, Compliance, and Accountability
A. Significant Violations of Finance-Related Legal & Contractual Provision and actions taken to address such violations (GASB Cod. Sec. 2300.106h, 1200.112)
B. Budgets (GASB Cod. Sec. 2400.103)
C. Deficit Net Position/Fund Balances of Individual <b>Nonmajor</b> Funds (GASB Cod. Sec. 2300.106n)
6. Deposits and Investments (Including Derivatives & Similar Debt, if applicable) (GASB Cod. Sec. 2300.106b-.106c, C20 & I50 and GASB Technical Bulletin 94-1) Fair value measurements – GASB Cod. Sec. 2300.107kkk, 3100.161-.163.
7. Securities Lending Transactions (GASB Cod. Sec. 2300.107s, I60.109-.114)
8. Derivatives (GASB Cod. Sec. 2300.107kk, D40.168-.179)
9. Receivables (GASB Cod. Sec. 2300.125, <b>2300.107ff</b> )

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20XX through September 30, 20XX**

10. Capital Assets, including <b>lease assets and subscription assets arising from subscription-based information technology arrangements</b> (GASB Cod. Sec. 1400 and 2300.106(l), 2300.117-.119, 2300.121)
11. Capital Asset Impairments (GASB Cod. Sec. 2300.107gg, 1400.163 .166- .167)
12. Termination Benefits (GASB Cod. Sec. 2300.107ii, T25.114-.117)
13. Pension Plan Obligations (GASB Cod. Sec. 2300.106f, P20, P21 and Pe5)
14. Sponsoring Governments Disclosures about External Investment Pools reported as investment trusts (See GASB Cod. Sec. 2300.107aa, IN5, Investment Pools (External), para. 103 and .141, as applicable)
15. Postemployment Benefits other than Pension Benefits (GASB Cod. Sec. 2300.106g, P50, P51, P52, P54)
16. Other Employee Benefits
17. Construction and Other Significant Commitments (GASB Cod. Sec. 2300.106k, 1700.127c)
18. Claims and Judgments (GASB Cod. Sec. 2300.106d, 1500.125, C50.115, .161-.164, .167-.168)
19. Accounts Payable (GASB Cod. Sec. 2300.107ff and 2300.125)
20. Lease Obligations (see Section L20, “Leases,” .137-.139, .182, .186, .188 and .191 (Lessees) and .157-.160, .141, .182, .186,.188 and 191 (Lessor))
21. Short-term Debt and Liquidity (including borrowing during the year – GASB Cod. Sec. 2300.107e and 2300.124)
22. Long-term Debt
(a) Long-Term Liabilities, including which fund pays debt and description of individual bond issues outstanding (GASB Cod. Sec. 2300.120-.121, 1500.129-130, 2300.106i)
(b) Amortization of discounts/premiums and issuance costs (GASB Cod. Sec. 2300.107xx, I30.115)
(c) Terms of interest rate changes of variable-rate debt (GASB Cod. Sec. 1500.129, GASB Cod. Sec. 2300.901 III(B). Liabilities)
(d) Bonds authorized but unissued (GASB Cod. Sec. 2300.901 III(B). Liabilities)
(e) Debt service requirements to maturity (GASB Cod. Sec. 1500.129-.130, 2300.106i)
(f) Synopsis of revenue bond covenants (GASB Cod. Sec. 2300.901 III(B). Liabilities)
(g) Special assessment debt and related activities (GASB Cod. Sec. 2300.107t, S40.126 - .127)
(h) Debt refunding and extinguishments (GASB Cod. Sec. 2300.107i, D20. 114 - .120, .148-.149, and .163-.164)
(i) Demand bonds (GASB Cod. Sec. 2300.107u, D30.111-.112)
(j) Bond, tax, and revenue anticipation notes excluded from fund or current liabilities (proprietary funds) (GASB Cod. Sec. 2300.107o, 2300.116)
(k) Interest expense included in direct expenses on Statement of Revenues, Expenses and Changes in Net Position(GASB Cod. Sec. 2300.107bb, 2200.134)
23. Future Revenues that are Pledged or Sold to directly secure or collateralize debt (GASB Cod. 2300.107jj, 2300.128 - .129; S20.120 & .122)

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20XX through September 30, 20XX**

24. Subscription-Based Information Technology Arrangements (GASB Cod. Sec. 2300.107hhh, Section S80, para. .159)
25. Unemployment Compensation (GASB Cod. U-50.101)
26. Landfill Closure and Postclosure Care Costs (GASB Cod. Sec. 2300.107w, L10.115 - .116 & .902)
27. Pollution Remediation (GASB Cod. Sec. 2300.107x, P40.123-.124)
28. Conduit Debt Obligations (GASB Cod. Sec. 2300.107z, C65.121-.123)
29. Risk Management Activities (GASB Cod. Sec. 2300.107a, C50.115; .145-.146, .161-.164; P20.146)
30. Interfund Receivables and Payables and interfund eliminations (GASB Cod. Sec. 2300.106o)
a. Due To/From Other Funds (GASB Cod. Sec. 2300.126)
b. Transfers In/Out (GASB Cod. Sec. 2300.127)
31. On-Behalf Payments for Fringe Benefits and Salaries (GASB Cod. Sec. 2300.107y, Sec. N50.138, Sec. P20, Sec. P21, Sec. P22, Sec. P24, Sec. P50, Sec. P51, and Sec. P52, as applicable)
32. Unusual or Infrequent Significant Transactions not within Control of Management (GASB Cod. Sec. 2300.107y, Sec. 2200.144, .143-.144 & .168)
33. Restricted Net Position imposed by enabling legislation. (GASB Cod. Sec. 2300.107hh, Sec. 2200.119)
34. Donor-restricted Endowment (GASB Cod. Sec. 2300.106q & 123)
35. Segment Information (GASB Cod. Sec. 2300.107c, Sec. 2500)
36. Joint Ventures/Jointly Governed Organizations (GASB Cod. Sec. 2300.107h, Sec. J50.109-.110)
37. Related Parties (GASB Cod. Sec. 2300.107f, Sec. 2250.103)
38. Related Organizations (GASB Cod. Sec. 2300.107g, Sec. 2600.130)
39. Significant Effects of Subsequent Events (GASB Cod. Sec. 2300.106e, Sec. C50.149 and 2250.109 -.115)
40. Restatements (GASB Cod. Section 2300.107uu, Sec. 2250.121-.125)
41. Substantial Doubts About Going Concerns (GASB Cod. Sec. 2300.107ll, Sec. 2250.120)
42. Nonexchange Transactions (GASB Cod. Sec. 2300.107j, Sec. N50.108)
43. Required Disclosures about bankruptcies (See GASB Cod. Sec. 2300.107mm, Sec. BN5, para. .114)
44. Deferred Inflows and Outflows (GASB Cod. 2300.107fff, .130 - .131)
45. Public-Private and Public-Public Partnerships (formally Service Concession Arrangements) (GASB Cod. Sec. 2300.107ggg, Sec. P90 para. .131-132 and .153-.158)
46. Nonexchange Financial Guarantees (GASB Cod. Section 2300.107ii, Sec. N30.110-.113)
47. Tax abatement (GASB Cod. Secs. 2300.107lll and T10)
48. Asset Retirement Obligations (GASB Cod. Secs. 2300.107v, A-10.124 - .126)

**NOTE DISCLOSURE CHECKLIST**  
**October 1, 20XX through September 30, 20XX**

49. Accounting changes and error corrections (GASB Cod. Section 2300.107vv, 2250, paragraphs .138, .148, .150, and .152)
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## REQUIRED SUPPLEMENTARY INFORMATION

**Mental Health Board, Inc**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
Last 10 fiscal Years\*\*  
(Dollar amounts in thousands)

	<u>2015</u>
<b>Total pension liability</b>	
Service cost	\$ 75,864.00
Interest	216,515.00
Changes of benefit terms	-
Differences between expected and actual experience	(37,539.00)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(119,434.00)
<b>Net change in total pension liability</b>	135,406.00
<b>Total pension liability - beginning</b>	2,853,455.00
<b>Total pension liability - ending (a)</b>	<u>\$2,988,861.00</u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 79,713.00
Contributions - employee	31,451.00
Net investment income	196,154.00
Benefit payments, including refunds of employee contributions	(119,434.00)
Administrative expense	(3,373.00)
Other (Transfers among employers)	8.00
<b>Net change in plan fiduciary net position</b>	184,519.00
<b>Plan fiduciary net positions - beginning</b>	2,052,589.00
<b>Plan fiduciary net positions - ending (b)</b>	<u>\$ 2,237,108.00</u>
<b>Board's net pension liability - ending (a) - (b)</b>	\$ 751,753.00
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	74.85%
<b>Covered payroll *</b>	449,293.00
<b>Board's net pension liability as a percentage of covered-employee payroll</b>	167.32%

**Notes to Schedule (example only):**

Benefit changes. In 20XX, benefit terms were modified to base employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 20XX, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. In 20XX, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of employees.



**Mental Health Board, Inc**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
 Last 10 fiscal Years\*  
 (Dollar amounts in thousands)

	<u>2015</u>
Actuarially determined contribution	\$ 79,713.00
Contributions in relation to the actuarially determined contribution	<u>79,713.00</u>
Contribution deficiency (excess)	\$ -
 Covered payroll	 449,293.00
Contributions as a percentage of covered-employee payroll	17.74%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2022 were based on the September 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	27.9 years
Asset valuation method	Five-year smoothed market
Inflation	2.75%
Salary increases	3.25 – 5.00%, including inflation
Investment rate of return	7.70%, net of pension plan investment expense, including inflation

\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Mental Health Board, Inc**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY**  
Last 10 fiscal Years\*\*  
(Dollar amounts in thousands)

	2015
<b>Total pension liability</b>	
Service cost	\$ 97,124.00
Interest	49,265.00
Changes of benefit terms	-
Differences between expected and actual experience	(201,461.00)
Changes of assumptions	53,805
Benefit payments, including refunds of employee contributions	(57,098.00)
<b>Net change in total pension liability</b>	(58,365.00)
<b>Total pension liability - beginning</b>	1,771,456.00
<b>Total pension liability - ending (a)</b>	<u>\$1,713,091.00</u>
<b>Plan fiduciary net position</b>	
Contributions	\$ 57,098.00
Net investment income	
Benefit payments	(57,098.00)
Administrative expense	
Other (Transfers among employers)	
<b>Net change in plan fiduciary net position</b>	
<b>Plan fiduciary net positions - beginning</b>	
<b>Plan fiduciary net positions - ending (b)</b>	<u>\$</u>
<b>Board's net pension liability - ending (a) - (b)</b>	\$ 1,713,091.00
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	0.00%
<b>Covered payroll *</b>	9,349,112.00
<b>Board's net pension liability as a percentage of covered-employee payroll</b>	18.32%

**Notes to Schedule (example only):**

This schedule is required to present information for 10 years. However, until a full 10-year trend is compiled, the Center will present information for those years for which information is available.

Benefit changes. In 20XX, benefit terms were modified to base employee OPEBs on a final three-year average salary instead of a final five-year average salary.

The actuarial valuations were performed using net premiums (gross premiums less retiree contributions), so the employer and employee contributions are not separately identified here.

**Mental Health Board, Inc**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB**  
Last 10 fiscal Years\*  
(Dollar amounts in thousands)

	<u>2015</u>
Actuarially determined contribution	\$ 56,651.00
Contributions in relation to the actuarially determined contribution	<u>56,651.00</u>
Contribution deficiency (excess)	\$ -
 Covered payroll	 9,278,543.00
Contributions as a percentage of covered-employee payroll	0.61%

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, of the last day of fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Amortization period	27.9 years
Asset valuation method	Five-year smoothed market
Inflation	2.75%
Healthcare cost trend rates	Flat 5.5% annually for ten years, 4.5% thereafter
Salary increases	3.25 – 5.00%, including inflation

\*This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

## SUPPLEMENTARY INFORMATION

Mental Health  
Board, Inc.

## Schedule of Revenues

October 1, 2XXX through September 30, 2XXX

	Federal Government	State Government	Local Government	Fees	Other
Department of Health and Human Services Grants and Contracts	\$746,728.46	\$	\$	\$	\$
State Department of Mental Health Grants and Contracts		752,734.84			
Counties:					
Murphy			24,563.00		
DeLoach			36,721.00		
Merch			15,875.00		
Astor			42,646.00		
Moran			59,495.00		
Patient Fees				115,595.53	
Rental Income					36,879.33
Interest Income					13,395.77
Disposition of Equipment					19,724.90
Miscellaneous					3,855.72
Total Revenues	<u>\$746,728.46</u>	<u>\$752,734.84</u>	<u>\$179,300.00</u>	<u>\$115,595.5</u>	<u>\$73,855.72</u>

Mental Health  
Board, Inc.

**Schedule of Expenses**  
October 1, 2XXX through September 30, 2XXX

	Administrative Expenses	Program Expenses	Total Expenses
Salaries	\$ 177,059.73	\$ 899,605.46	\$ 1,076,665.19
Social Security	11,890.98	56,396.25	68,287.23
Unemployment Tax	4,341.00		4,341.00
Retirement	10,778.69	46,304.36	57,083.05
Disability	2,681.83	10,746.04	13,427.87
Insurance-Group	5,010.78	24,583.05	29,593.83
Travel	3,577.17	27,232.14	30,809.31
Utilities	20,206.86	4,485.05	24,691.91
Telephone	25,195.98	6,015.98	31,211.96
Equipment and Improvements	5,474.65	6,053.93	11,528.58
Repairs and Maintenance	9,930.48	1,947.18	11,877.66
Janitorial Supplies	11,349.34	3,126.33	14,475.67
Printing and Subscriptions	15,541.75	1,105.21	16,646.96
Client Transportation	314.80	1,067.05	1,381.85
Insurance-General	14,925.50	3,799.00	18,724.50
Rent	198.00	16,521.20	16,719.20
Office Supplies	8,945.79	5,032.07	13,977.86
Miscellaneous	1,911.66	447.27	2,358.93
Dues	1,254.43	35.00	1,289.43
Legal and Auditing	6,338.47		6,338.47
Data Processing	21,344.47		21,344.47
Food and Lounge		10,758.79	10,758.79
Testing and Program Supplies		7,218.48	7,218.48
Hospital Costs		59,034.50	59,034.50
Pharmacy		42,260.10	42,260.10
Psychiatrist		18,656.37	18,656.37
Medical and Dental		1,045.83	1,045.83
Uncollectible Patient Receivables	4,675.00		4,675.00
<b><u>Total Expenses</u></b>	<b><u>\$ 362,947.36</u></b>	<b><u>\$ 1,253,476.64</u></b>	<b><u>\$ 1,616,424.00</u></b>

**Mental Health**  
**Board, Inc.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 20XX**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal AL Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b><u>U. S. Department of</u></b> <b><u>Health &amp; Human Services Passed Through</u></b> <b><u>the Alabama Department of Mental Health</u></b>				
Block Grant for the Prevention and Treatment of Substance Abuse	93.959	18B1ALADMS-02		\$ 250,000
Block Grant for Community Mental Health Services	93.958	3H8ODA21YO		50,000
Total U.S. Department of Health and Human Services				300,000
Total Federal Awards				300,000

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Note: The presented program titles, Assistance Listing Nos., and grant numbers are for illustrative purposes only.

# Notes to Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 20XX

## **Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the \_\_\_\_\_ Mental Health Board, Inc. under programs of the federal government for the year ended September 30, 20XX. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of (*Name of Entity*), it is not intended to and does not present the financial position, changes in net **position** or cash flows of (*Name of Entity*).

## **Note 2 – Summary of Significant Accounting Policies<sup>9</sup>**

Expenditures reported on the Schedule are reported on the (*identify the basis of accounting*) basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

## **Note 3 – Indirect Cost Rate<sup>10</sup>**

The (*Name of Entity*) has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## **Note 4 - Other**

*Include other information necessary to understand the information included in the Schedule of Expenditures of federal awards.*

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<sup>9</sup>. This note is included to meet the Uniform Guidance requirement that the schedule include notes that describe the significant accounting policies used in preparing the schedule {See paragraph 7.09 of the AICPA’s *Government Auditing Standards and Single Audit Guide*, dated April 1, 2022}

<sup>10</sup>A nonfederal entity may have a federally negotiated indirect cost rate that is being used for federal awards. In general, under 2 CFR 200.414(f), if an entity has never received a negotiated indirect cost rate, the entity may elect to use a 10% de minimis indirect cost rate. Further, 2 CFR 200.510(b)(6) explains that the notes to the schedule of expenditures of federal awards must include whether the nonfederal entity has elected to use the 10% de minimis indirect cost rate.



## ADDITIONAL INFORMATION

**Board of Directors and Officials**  
October 1, 2XXX through September 30, 2XXX

Board Member			Term Expires
Hon. John Jenkins*	Member	308 Sawmill Drive Smithville, AL 36903	2XXX
Hon. Sally Myers	Treasurer	Route 4, Box 297-C Anytown, AL 34567	2XXX
Hon. Sam Thomas*	Member	1415 Green Street Johnson, AL 36904	2XXX
Hon. May Davis*	Chairman	1601 Keith Circle Anytown, AL 35467	2XXX
Hon. Nathan Stuart	Vice- Chairman	354 Tooson Way Johnson, AL 36904	2XXX
Hon. Paul White*	Member	1503 Dorothy Drive Anytown, AL 34567	2XXX
Hon. Doug Sealey	Secretary	Route 4 Anytown, AL 34567	2XXX
Hon. Mike Jones	Member	785 Stringer Street Johnson, AL 36904	2XXX
Hon. Pete Norris*	Member	235 Cheatham Way Smithville, AL 36903	2XXX
Hon. Nancy Watkins	Member	Route 2, Box 19-C Johnson, AL 36904	2XXX

\*- Denotes member of Executive Committee

Officials

Hon. Bill Waters	Director	XYZ Mental Health Center 1500 Sunshine Court Smithville, AL 36903
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## Example 1

### **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***

#### Independent Auditor's Report

[Appropriate Addressee]

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information [*include all opinion units that apply*] of the \_\_\_\_\_ as of and for the year ended September 30, 20\_\_, and the related notes to the financial statements, which collectively comprise the \_\_\_\_\_'s basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 20X1.<sup>11</sup>

#### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the \_\_\_\_\_'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 \_\_\_\_\_'s internal control. Accordingly, we do not express an opinion on the effectiveness of the \_\_\_\_\_'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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.

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<sup>11</sup> Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.). For example, if the opinion on an opinion unit is qualified due to a scope limitation or because of a GAAP departure, the following sentence should be added:

The report on [*describe the opinion unit affected by the qualification*] was qualified [*describe reason for qualification*].

The Yellow Book clarifies that the auditor is required to report on internal control and compliance even in situations where they disclaim an opinion on the financial statements. If the report on the financial statements disclaims an opinion on an opinion unit, the following sentence should be added:

We did not express an opinion on [*describe the opinion unit affected by the disclaimer*] because [*describe reason for the disclaimer*].

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Report on Compliance and Other Matters**<sup>12</sup>

As part of obtaining reasonable assurance about whether the \_\_\_\_\_'s financial statements are free of 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 statement. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

John Doe  
XYZ Audit Firm

Montgomery, Alabama

Date – (Auditor's Report Date)

**NOTE:** This report is used when there are no deficiencies, significant deficiencies or material weaknesses, identified and no reportable instances of noncompliance or other matters. Auditors should use portions of examples 1, 2, and 3 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified deficiencies, the compliance section of this report would be used along with the internal control section of Example 2. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified deficiencies, the internal control section of this report would be used along with the compliance section of Example 2. Example 3 should be used when there are material weaknesses, significant deficiencies and reportable instances of noncompliance or other matters.

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<sup>12</sup> Other Matters are certain findings of fraud. This heading and the reference to "other matters" in the paragraph below the heading typically appear in all reports, even in situations where (1) the report does not present or refer to findings of fraud or (2) the only findings of fraud are presented in or referred to from the internal control over financial reporting section.

## Example 2

### 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*

#### Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information [*include all opinion units that apply*] of the \_\_\_\_\_ as of and for the year ended September 30, 20\_\_, and the related notes to the financial statements, which collectively comprise the \_\_\_\_\_'s basic financial statements and have issued our report thereon dated \_\_\_\_\_, 20\_\_.<sup>13</sup>

#### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the \_\_\_\_\_'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 \_\_\_\_\_' internal control. Accordingly, we do not express an opinion on the effectiveness of the \_\_\_\_\_'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 in the first paragraph of this section 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

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<sup>13</sup> Describe any departure from the standard report (e.g. qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)

deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying [include the title of the schedule in which the findings are reported, i.e., Schedule of Findings and Questioned Costs] as item(s) [List the reference numbers of the related findings, for example, 20X1-001, 20X1-003, and 20X1-004] that we consider to be significant deficiencies.

## Report on Compliance and Other Matters<sup>14</sup>

As part of obtaining reasonable assurance about whether the \_\_\_\_\_'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 statement. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item(s) [List related finding reference numbers, for example, 2010-002 and 2010-005].<sup>15</sup>

### \_\_\_\_\_ Entity's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the \_\_\_\_\_'s response to the findings identified in our audit and described in the accompanying [include the title of the schedule in which the findings are reported (for example, schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report.] The \_\_\_\_\_'s response to the findings, identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan, was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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<sup>14</sup> Other Matters are certain findings of fraud. This heading and the reference to "other matters" in the paragraph below the heading typically appear in all reports, even in situations where (1) the report does not present or refer to findings of fraud or (2) the only findings of fraud are presented in or referred to from the internal control over financial reporting section.

<sup>15</sup> If there are certain matters which have been reported to management that are not included in this report (e.g., inconsequential internal control deficiencies, immaterial violations of provisions of contracts or grant agreements or immaterial abuse), the auditor might consider including a statement such as the following:

We also noted certain additional matters that we reported to management of \_\_\_\_\_ in our letter of March 3, 20XY.

John Doe  
XYZ Audit Firm

Montgomery, Alabama

Date - (Auditor's Report date)

NOTE: This report is used when there are significant deficiencies, no material weaknesses and there are reportable instances of noncompliance and other matters identified. Also, refer to NOTE in example 1.

### Example 3

## 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*

### Independent Auditor's Report

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information [*include all opinion units that apply*] of the \_\_\_\_\_ as of and for the year ended September 30, 20\_\_, and the related notes to the financial statements, which collectively comprise \_\_\_\_\_'s basic financial statements and have issued our report thereon dated \_\_\_\_\_, 20\_\_.<sup>16</sup>

### Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the \_\_\_\_\_'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the \_\_\_\_\_'s internal control. Accordingly, we do not express an opinion on the effectiveness of the \_\_\_\_\_'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying (include the title of the schedule in which the findings are reported, i.e. Schedule of Findings and Questioned Costs), we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items [*List related finding reference numbers, for example,*

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<sup>16</sup> Describe any departure from the standard report (e.g. qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)



**2010-001, 2010-004 and 2010-008]** to be material weaknesses.<sup>17</sup>

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the Schedule of Findings and Questioned Costs as items **[List related finding reference numbers, for example, 2010-001, 2010-004 and 2010-008]** to be significant deficiencies.

## **Report on Compliance and Other Matters<sup>18,5</sup>**

As part of obtaining reasonable assurance about whether the \_\_\_\_\_’s financial statements are free of 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 statement. 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 instances of noncompliance or other matters that are required to be reported under **Government Auditing Standards** and which are described in the accompanying Schedule of Findings and Questioned Costs as items **[List related finding reference numbers, for example, 2010-002 and 2010-005]**.

### **\_\_\_\_\_’s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the [Entity]’s response to the findings identified in our audit and described in the accompanying [include the title of the schedule in which the findings are reported (for example, schedule of findings and responses or schedule of findings and questioned costs) or "previously" if findings and responses are included in the body of the report]. The \_\_\_\_\_’s response to the findings identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The \_\_\_\_\_’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in

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<sup>17</sup> The all four digits of the year should be used for finding reference numbers (i.e., Fiscal Year 2010, use 2010; Fiscal Year 2009, use 2009; etc.) followed by a hyphen and three digit sequence number.

<sup>18</sup> Other Matters are certain findings of fraud. This heading and the reference to “other matters” in the paragraph below the heading typically appear in all reports, even in situations where (1) the report does not present or refer to findings of fraud or (2) the only findings of fraud are presented in or referred to from the internal control over financial reporting section.

accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>19</sup>

Joe Doe  
XYZ Audit Firm

Montgomery, Alabama

Date - (Auditor's Report date)

**NOTE: This report is used when there are material weaknesses, significant deficiencies and reportable instances of noncompliance and other matters identified. Auditors should use portions of Examples 1, 2 and 3 that apply to a specific auditee. Also, refer to NOTE in example 1.**

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<sup>19</sup> This paragraph conforms to paragraph .11 of AU-C section 905, *Alert that Restricts the Use of the Auditor's Written Communication (AICPA Professional Standards)* which provides for a "purpose" alert in lieu of a "restricted use" alert for certain communications issued under *Government Auditing Standards*. {See AU-C Section 905 for additional guidance.)

## Example 4

### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*<sup>20</sup>

#### Independent Auditor's Report

[Appropriate Addressee]

#### Report on Compliance for Each Major Federal Program

##### Opinion on Each Major Federal Program

We have audited the \_\_\_\_\_'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the \_\_\_\_\_'s major federal programs for the year ended September 30, 20\_\_\_. The \_\_\_\_\_'s major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, \_\_\_\_\_ Mental Health Board, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 20\_\_\_.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 \_\_\_\_\_ Mental Health Board, Inc. 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of \_\_\_\_\_ Mental Health Board, Inc.'s compliance with the compliance requirements referred to above.

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<sup>20</sup> Modify heading to include: "AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARD REQUIRED BY THE UNIFORM GUIDANCE" in the heading if you will be reporting on the Schedule of Expenditures of Federal Awards in this report as indicated in Footnote 28.

### **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 Example Entity'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 Example Entity'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 material noncompliance when it exists. The risk of not detecting 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 judgment made by a reasonable user of the report on compliance about Example Entity's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- 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 \_\_\_\_\_ Mental Health Board Inc.'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 \_\_\_\_\_ Mental Health Board Inc.'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 expressing an opinion on the effectiveness of \_\_\_\_\_ Mental Health Board Inc.'s internal control over compliance. Accordingly, no opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Uniform Guidance* and which are described in the accompanying schedule of findings and questioned costs as items [list reference numbers of the related findings, 20X1-001 and 20X1-002]. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on \_\_\_\_\_'s response to the noncompliance findings identified in our audit described in the accompanying [insert name of document containing management's response to the auditor's findings: for example: **Auditee Response/Corrective Action Plan; Schedule of Findings and Questioned Costs**]. The \_\_\_\_\_'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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.<sup>21</sup>

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<sup>21</sup> There may be circumstances when the auditor desires to report on the Schedule of Expenditures of Federal Awards

John Doe  
XYZ Audit Firm

Montgomery, Alabama

Date - (Auditor's Report Date)

**NOTE: This report is used when an unmodified opinion on compliance and no material weaknesses or significant deficiencies are reported. Auditors should refer to the Audit Guide (Government Auditing Standards and Single Audits) for example reports that apply to a specific audit situation.**

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in this report. For instance, if a separate Single Audit package is issued it would be appropriate to report on the Schedule of Expenditures of Federal Awards in this report. In those circumstances the following section would be added immediately following this paragraph:

#### **Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of \_\_\_\_\_ as of and for the year ended September 30, 20X1, and related notes to the financial statements, which collectively comprise \_\_\_\_\_'s basic financial statements. We issued our report thereon dated \_\_\_\_\_ 20X1, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the *Uniform Guidance* and is not a required part of the basic 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 basic 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 records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

## Example 5

### **REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL REQUIRED BY THE *UNIFORM GUIDANCE*<sup>22</sup>**

#### **Independent Auditor's Report**

[Appropriate Addressee]

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

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

We have audited the \_\_\_\_\_ Mental Health Board Inc.'s compliance with the types of compliance requirements identified as subject to audit in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the \_\_\_\_\_'s major federal programs for the year ended September 30, 20\_\_\_. The \_\_\_\_\_'s major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, \_\_\_\_\_ Mental Health Board Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 20XX.

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); 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 \_\_\_\_\_ Mental Health Board Inc. 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Example Entity's compliance with the compliance requirements referred to above.

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<sup>22</sup> Modify heading to include: "**AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARD REQUIRED BY THE UNIFORM GUIDANCE**" in the heading if you will be reporting on the Schedule of Expenditures of Federal Awards in this report as indicated in Footnote 25.

### **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 \_\_\_\_\_ Mental Health Board Inc.'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 Example Entity'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 material noncompliance when it exists. The risk of not detecting 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 judgment made by a reasonable user of the report on compliance about Example Entity's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- 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 \_\_\_\_\_ Mental Health Board Inc.'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 \_\_\_\_\_ Mental Health Board Inc.'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 expressing an opinion on the effectiveness of \_\_\_\_\_ Mental Health Board Inc.'s internal control over compliance. Accordingly, no opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Uniform Guidance* and which are described in the



accompanying schedule of findings and questioned costs as items [list reference numbers of the related findings, 20X1-1 and 20X1-2]. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on \_\_\_\_\_ Mental Health Board Inc's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. \_\_\_\_\_ Mental Health Board Inc'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**

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, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20X1-003, 20X1-004, and 20X1-005] to be material weaknesses.

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.

Government Auditing Standards requires the auditor to perform limited procedures on Example Entity's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. \_\_\_\_\_ Mental Health Board Inc'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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on 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.<sup>23</sup>

Joe Doe  
XYZ Audit Firm

Montgomery, Alabama

Date – (Auditor’s Report Date)

**NOTE:** This report is used when an Unmodified Opinion on Compliance for Each Major Federal Program; Material Weaknesses in Internal Control Over Compliance Identified; No Significant Deficiencies in Internal Control Over Compliance Identified Auditors should refer to the Audit Guide (*Government Auditing Standards and Single Audits*) for additional example reports that may apply to their specific situation.

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<sup>23</sup> There may be circumstances when the Examiner desires to report on the Schedule of Expenditures of Federal Awards in this report. For instance, if a separate Single Audit package is issued it would be appropriate to report on the Schedule of Expenditures of Federal Awards in this report. In those circumstances the following section would be added immediately following this paragraph:

**Report on Schedule of Expenditures of Federal Awards Required by the *Uniform Guidance***

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of \_\_\_\_\_ as of and for the year ended September 30, 20X1, and related notes to the financial statements, which collectively comprise \_\_\_\_\_’s basic financial statements. We issued our report thereon dated \_\_\_\_\_ 20X1, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the *Uniform Guidance* and is not a required part of the basic 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 basic 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 records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Section I – Summary of Auditor’s Results

#### Financial Statements

Type of report the auditor issued on whether

The financial statements audited were prepared

In accordance with GAAP:<sup>24</sup>

[unmodified, qualified, adverse, disclaimer]

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ Yes \_\_\_\_\_ No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes \_\_\_\_\_ None reported

Noncompliance material to financial

statements noted?

\_\_\_\_\_ Yes \_\_\_\_\_ No

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ Yes \_\_\_\_\_ No

Significant deficiency(ies) identified?

\_\_\_\_\_ Yes \_\_\_\_\_ None reported

Type of auditor’s report issued on compliance for

major federal programs:<sup>25</sup>

[unmodified, qualified, adverse, disclaimer]

Any audit findings disclosed that are required

to be reported in accordance with

2 CFR 200.516(a) of *Uniform Guidance*?

\_\_\_\_\_ Yes \_\_\_\_\_ No

Identification of major federal programs:<sup>26</sup>

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<sup>24</sup> Auditors generally express or disclaim an opinion on a government’s basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. Therefore, there could be multiple responses to this question for audits of a government’s basic financial statements.

<sup>25</sup> If the audit opinion for one or more major programs is other than unmodified, indicate the type of opinion issued for each program. For example, if the opinion on major program compliance for an auditee having five major programs includes an unmodified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows: Unmodified for all major programs except for [name of program], which was qualified and [name of program], which was a disclaimer."

<sup>26</sup> Major programs should generally be identified in the same order as reported on the Schedule of Expenditures of Federal Awards.

*Assistance Listing (AL) Number(s)*<sup>27</sup>

*Name of Federal Program or Cluster*<sup>28</sup>

Dollar threshold used to distinguish

Between Type A and Type B programs: \$ \_\_\_\_\_

Auditee qualified as low risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ No

## **Section II - Financial Statement Findings (GAGAS)**<sup>29</sup>

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
2013-001 <sup>30</sup>	Compliance	<p><b><u>Finding:</u></b> An entity's internal control system should include the proper segregation of duties that reduces the opportunities for individuals to be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties. Fifty five (55) out of 100 payments selected for testing of payments to various vendors were found to have been deposited into the personal accounts of a former employee. Therefore, the financial statements were materially misstated as a result of the misappropriation of funds. This employee would make copies of an invoice and assign a new purchase order number to these copies. These copies would then be submitted for payments to vendors.</p> <p><b><u>Recommendation:</u></b> The _____ should require that invoices be cancelled upon payment and only original invoices be used for vendor payments.</p>	\$321,379

<sup>27</sup> When the Assistance Listing number is not available, include other identifying number, if applicable.

<sup>28</sup> The name of the federal program or cluster should be the same as that listed in the Schedule of Expenditures of Federal Awards. For clusters, Auditors are only required to list the name of the cluster and not each individual program within the cluster.

<sup>29</sup> See the Uniform Guidance under Schedule of Findings and Questioned Costs, Financial Statement Findings (GAGAS) for elements to be included for each audit finding.

<sup>30</sup> Reference numbers must be in this format (four-digit audit year followed by a hyphen and three digit sequence number for the finding beginning with the FY 2013 submissions.

		<b>Views of Responsible Officials of the Auditee:</b> (INSERT OFFICIAL'S VIEW AND BE SURE TO DOCUMENT THE SOURCE OF THE OFFICIAL'S VIEW, INCLUDING THEIR AGREEMENT WITH WHAT IS REPORTED HERE.) [See 2 CFR 200.516(b)(10); Government Auditing Standards and Single Audits Guide 4.63 – 4.66; and 13.41]	
2003-003	Compliance		
2003-004	Internal Control	<p><b>Finding:</b> An entity's internal control system should include the proper segregation of duties that reduces the opportunities for individuals to be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties. The _____'s system allows individuals who receipt funds to also have the ability to void transactions and adjust charges.</p> <p><b>Recommendation:</b> A system of controls should be implemented to prevent persons who have the capability of receipting funds from also being able to void transactions and adjust changes.</p> <p><b>Views of Responsible Officials of the Auditee:</b> (See note at Finding 2003-001)</p>	
2003-005	Internal Control		
2003-006	Internal Control		

### Section III - Federal Awards Findings and Questioned Costs<sup>31</sup>

Ref. No.	AL No	Program	Findings/Noncompliance	Questioned Costs
2003-007	10.555	U.S. Department of Agriculture; Passed-through Alabama Department of Education; National School Lunch Program Contract No. XXXX for 10/1/0X through 9/30/0X	<p><b><u>Finding:</u></b> Allowable Cost/Cost Principles require that payroll charges be supported by time and attendance records. During the audit period, the Director of the Child Nutrition Program also held the position of Transportation Director. Timesheets were not maintained reflecting the allocation of time worked on federal and non-federal programs.</p> <p><b><u>Recommendation:</u></b> The Director of the Child Nutrition Program should maintain timesheets reflecting the allocation of time worked on federal and non-federal programs.</p> <p><b><u>Views of Responsible Officials of the Auditee:</u></b> (See note at Finding 2003-001)</p>	\$ 37,758
2003-008	14.228	U.S. Department of Housing and Urban Development, Passed through Alabama Department of Economic and Community Affairs, Community Development Block Grants/States Program	<p><b><u>Finding:</u></b> As described in 2003-004, due to the lack of segregation of duties, individuals were able to receipt federal funds and also void transactions related to these funds.</p> <p><b><u>Recommendation:</u></b> A system of controls should be implemented to prevent persons who have the capability of receipting federal funds from also being able to void transactions.</p> <p><b><u>Views of Responsible Officials of the Auditee:</u></b> (See note at Finding 2003-001)</p>	

<sup>31</sup> See the Uniform Guidance, Section V, under Schedule of Findings and Questioned Costs, Federal Awards Findings and Questioned Costs for specific information that should be included in each audit finding.

**NOTE TO AUDITORS:**

In situations where there are no findings or questioned costs, Section I - Summary of Auditor's Results should always be prepared and in Section II - Financial Statement Findings and Section III - Federal Awards Findings and Questioned Costs, the following statement should be included: "No Matters were Reported." Paragraph 13.47 of the *Government Auditing Standards and Single Audit Guide* (April 2022) states that a Schedule of Findings and Questioned Costs **must** be presented in every *Uniform Guidance* Audit even when there are no findings (GAGAS or Single Audit). It further states that when there are no findings the auditor has the option of omitting Section II and Section three or including the sections and indicating that no matters were reported.

Auditors should also ensure that no "Protected Personally Identifiable Information" ("Protected PII) is included in the findings included in the Schedule of Findings and Questioned Costs. Protected PII includes an individual's First name or First Initial in combination with one or more of the following types of information: social security number, passport number, credit card numbers, clearances, bank numbers, biometrics, date and place of birth, mother's maiden name, criminal, medical and financial records, and educational transcripts. Auditors should refer to 2 CFR 200.79 for a guidance of information that is required to be disclosed and is not considered to be Protected PII.

		Contract No. XXXX for 10/1/0X through 9/30/0X		
2003- 009				

# REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT<sup>32</sup>

*(When the auditor's procedures disclose no material instances of noncompliance)*

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(Addressee)

We have audited contract/grant/agreement numbers between the Department of Mental Health (DMH) and (name of organization) as of and for the year ended \_\_\_\_\_.

Compliance with DMH contract(s)/grant(s)/agreement(s), and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management. As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH contract/grant/agreement, and all applicable laws, and regulations.

This report is intended for the information of management and DMH. However, this report is a matter of public record and its distribution is not limited.

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Name of Firm

(Date)

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<sup>32</sup> Although this is the format prescribed by the Department of Mental Health, practitioners should refer to the professional auditing standards to obtain guidance in the preparation of these reports.



# REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT

*(When the auditor's procedures disclose material instances of noncompliance)*

\_\_\_\_\_  
(Addressee)

We have audited contract/grant/agreement numbers between the \_\_\_\_\_  
Department of Mental Health (DMH) and (name of organization) as of and for the year ended \_\_\_\_\_.

Compliance with DMH contract(s)/grant(s)/agreement(s), Provider Agreement and all laws, rules, and regulations applicable to (name of organization) is the responsibility of (name of organization's) management.

As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed the following material instances of noncompliance:

(Include paragraph(s) describing the material instances of noncompliance noted.)

This report is intended for the information of management and DMH. However, this report is a matter of public record and its distribution is not limited.

\_\_\_\_\_  
Name of Firm

(Date)

# AUDITEE LETTERHEAD

## Summary Schedule of Prior Audit Findings

*For the Year Ended September 30, 20XX*

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511, the (*Name of Auditee*) has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of September 30, 20XX.

Finding Ref. No.	Status of Prior Audit Finding
2014-001 <sup>33</sup>	List the finding and state. Corrective action was taken.
2015-002	List the finding and state corrective action taken, i.e., This finding reoccurred because [provide an explanation as to the reason for the reoccurrence]. We are in the process of revising our Cash Management policies and procedures to eliminate excess drawdowns. We plan to have this completed by June 30, 20XX.

### Notes to Auditors

The auditee is actually responsible for completing this form.

**Items to be included on this Schedule:** All audit findings included in the prior audit's Schedule of Findings and Questioned Costs should be include in this Schedule. In addition, audit findings included in the prior audit's Summary Schedule of Prior Audit Findings except findings listed as corrected in accordance with 2 CFR 200.511(b) (1), (2) or no longer valid or not warranting further action in accordance with 2 CFR 200.511 (b) (3).

1. When prior audit findings have been corrected, list the reference number, the audit finding and state that "Corrective action was taken."
2. When prior audit findings have not been corrected or only partially corrected, list the audit finding, state the reasons for the findings reoccurrence and describe the planned corrective action as well as any partial corrective action taken.
3. When corrective active taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, provide an explanation.
4. When the auditee believes the prior audit findings are no longer valid or do not warrant further action, the reasons for this position should be described. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
  - (a) Two years have passed since the audit report in which the finding occurred was submitted to the Federal clearinghouse.
  - (b) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding, and
  - (c) A management decision was not issued.

## AUDITEE LETTERHEAD

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### Corrective Action Plan

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*For the Year Ended September 30, 20XX*

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As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), the (*Name of Auditee*) has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 20XX.

#### Finding

Ref.

No.

Corrective Action Plan Details

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*2014-001 Finding: [Repeat Finding and be sure to include the Reference Number.]*

*Response: [Each corrective action should include the following:  
Name(s) of Contact Person(s) responsible for corrective action;  
Corrective action planned; Anticipated Completion Date]*

*If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan should include an explanation and specific reasons.*

*[Repeat above for each finding reflected in Sections 2 and 3 of the current year's Schedule of Findings and Questioned Costs.]*

**APPENDIX II**  
**SPECIAL COMPLIANCE AUDIT INFORMATION**

## **PROLOGUE**

The accompanying legal compliance information has been provided to help familiarize auditors with some of the legal requirements applicable to mental health centers. The accompanying legal compliance information is subject to change and it is the responsibility of the auditor performing the audit of a mental health center to ensure that the appropriate legal compliance testing is performed based on the most recent applicable laws and regulations.

## **MENTAL HEALTH CENTERS**

The information contained in this section is applicable to CPA's performing audits of mental health centers. Further information may be secured by contacting the Department of Examiners of Public Accounts Coordinator of Mental Health Audits.

### **General Information**

This section relates to mental health centers organized pursuant to Act No. 310, 1967 Ala. Acts 853, which are frequently referred to as "310 Boards." This act is codified at *Ala. Code* § 22-51-1 through 22-51-14.

The incorporation of regional mental health programs and facilities (mental health centers) are provided for in *Ala. Code* § 22-51-3 through 22-51-7. "[A]ny number of natural persons, not less than three, may form a public corporation to contract with the State Board of Health or the Alabama Department of Mental Health and Mental Retardation in constructing and operating facilities and in carrying out programs in particular areas of the state." *Ala. Code* § 22-51-2 (1975). Said corporation "shall constitute a public corporation vested with the rights and powers granted in this chapter under the name set forth in such certificate of incorporation." *Ala. Code* § 22-51-6 (1975).

The appointment, composition, qualifications, etc., of board members is provided in *Ala. Code* § 22-51-8. Further, this section specifically provides that the board members of mental health centers shall receive no compensation for their services. The board "shall hold monthly meetings and such special meetings as may be called . . ." *Ala. Code* § 22-51-9 (1975). *Ala. Code* § 22-51-11 enumerates certain powers authorized to the corporation, in addition to other powers granted elsewhere in the chapter.

"The corporations authorized in this chapter and their property, including bonds, conveyances, mortgages, leases and deeds, and all income from such property and the operation of programs shall be exempt from all taxation, and no excise tax may be imposed on any corporation for the privilege of engaging in any of the activities authorized by this chapter; provided, that the corporation must adhere to minimum standards for licensure as provided by Chapter 50 of this title." *Ala. Code* § 22-51-13 (1975). *Ala. Code* § 22-51-14 provides for appropriations by local governing bodies and relates to appropriations by local governing bodies. As to immunity from suit and civil liability of not-for-profit corporations, associations, or organizations, see *Ala. Code* § 10A-20-16.

## SPECIFIC COMPLIANCE AREAS

### Board Members

Board members of mental health centers shall receive no compensation for their services. However, they may be reimbursed for their actual and necessary expenses incurred while on board business.

Public corporations are prohibited from contracting with board members. Board members may not obtain a loan using board funds.

A board member should not seek a position at a mental health center for a relative. If the relative of a board member does apply for a position at a mental health center, the employment of that relative requires the unanimous concurrence of the board. The board member of a relative applicant should recuse himself or herself from the hiring process.

### Employees

No employee of a mental health center, the Department of Mental Health, or the Department of Human Resources is to be directly or indirectly interested in contracts between a mental health center and the Department of Mental Health.

A mental health center may provide a group health insurance plan for employees and their dependents and implement a deferred compensation plan.

Token awards for employee services are allowed.

A mental health center may pay the expense of additional training for employees relating to their work.

### Security for Alabama Funds Enhancement (SAFE) Act

Mental health centers organized pursuant to Act No. 310, 1967 Acts of Alabama 853 (1967) ("310 Boards") are subject to the provisions of the Security for Alabama Funds Enhancement (SAFE) Act. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in *Ala. Code* § 41-14A-1 through 41-14A-14. All covered public entities as defined under the Act are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs).

These funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30 to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.

#### Other

Public corporations, unless otherwise excluded, are subject to the provisions of the State Competitive Bid Law, the State Public Works Law, and the Open Meetings Act of 2005.

In accordance with contracts with the Department of Mental Health, the "310 Boards" may not expend funds to support candidates for public office or to support or oppose legislation before Congress or the State Legislature.

A mental health center board has authority to determine reasonable fees for its services and collect them. It may grant a discount for prompt payment, but there is no authority for a public corporation to act as a surety on any loan providing for payment of a patient's bill.

All meetings of a mental health center board, except for executive sessions, are to be open to the public and proper notice must be provided. *Ala. Code* § 36-25A-2 (1975). The notice requirements and purposes under which executive sessions are permitted are outlined in *Ala. Code* § 36-25A-3 and 36-25A-7, respectively.

#### Attorney General Opinions

Attorney General Opinions referenced below relate to public corporations organized under *Ala. Code* § 22-51-1, *et seq.*, and do not necessarily represent all opinions issued during the cited periods.

- The **property of a county health department** is owned by the county and may be labeled as such. However, property of a mental health center belongs to the center although it is bought with county appropriations. Attorney General Opinion 79-00206, dated May 24, 1979.
- The board of directors of the East Alabama Mental Health Center may legally pay the **dues** of the Center Director to the Alabama Council of Mental Health- Mental Retardation Directors when these dues will in the future be used, in part, to pay the salary of an Executive Secretary for the Council. It was proffered that the Council is concerned with numerous mental health programs in which the Center also has a legitimate interest and the authority to promote. Attorney General Opinion 80-00025, dated October 19, 1979.
- The Northwest Mental Health Center does not have available to it the **doctrine of sovereign immunity** created by Article I, Section 14 of the Constitution of 1901 read in conjunction with the Eleventh Amendment of the Constitution of the United States. Attorney General Opinion 80-00492, dated August 6, 1980.



- A regional mental health board may implement a **deferred compensation plan** for its employees. Attorney General Opinion 82-00225, dated March 3, 1982.
- Corporations providing mental health services are not exempt from the **utilities gross receipt tax** levied pursuant to *Ala. Code* § 40-21-80, *et seq.* Attorney General Opinion 82-00262, dated March 24, 1982.
- A proposed amendment to the **articles of incorporation** of a mental health board in order to be adopted must be approved by a majority of the governing bodies having members on the board. Attorney General Opinion 82-00310, dated April 29, 1982.
- Regional mental health boards are **public corporations** not subject to Section 68 of the Alabama Constitution: however, year-end merit awards to employees of such boards should be approved by the Department of Mental Health. Attorney General Opinion 82-00442, dated July 13, 1982.
- A mental health board may **contract with a private non-profit corporation** to build a building for the private corporation to use as a school in which services will be provided which accord with the purpose of such mental health board. Such Board must maintain direction and control of the building and the activities conducted therein. Attorney General Opinion 83-00217, dated March 7, 1983.
- **Board members** by statute are prohibited from receiving compensation for their services. However, since the board is a public corporation, the State law relative to travel expense is not applicable. As a public corporation, governed by a board of directors, it can set a rate for expenses or pay actual expenses. It is also possible that the county or municipal body, which authorizes its formation, might pay expenses for board members. Attorney General Opinion 83-00377, dated July 5, 1983.
- "310 Boards" cannot establish a **quorum** requirement greater than three members for the transaction of business by the board of directors. Attorney General Opinion 83-00444, dated August 18, 1983.
- The State Department of Mental Health may set out certain **appointee qualifications** for the executive director and program directors of local mental health centers. However, the Department cannot require that these individuals be approved by the State Department of Mental Health. Attorney General Opinion 83-00457, dated September 1, 1983.
- **Certification** by the State Board of Examiners in Psychology is required for psychologists employed at regional mental health centers. These psychologists are not exempted under mental health center certification. Attorney General Opinion 84-00088, dated December 5, 1983.
- A regional mental health center may **contract with hospitals**, physicians and other entities for the staff of the center to provide services to patients at the request of the physician or entity. There is no further need for certification other than that required for the mental health center by the State Department of Mental Health and State Health

Department. Attorney General Opinion 84-00142, dated January 30, 1984.

- The Cahaba Regional Mental Health/Mental Retardation Center Board of Directors desired to adopt two new policies regarding **jury duty** and **military leave**. It was determined that the jury policy of the mental health facility did not conflict with law but that the personnel policy concerning military leave conflicted with State law. Regional mental health programs and facilities are quasi-public organizations and are required to allow all officers and employees a minimum of 21 working days per calendar year for military leave. *Ala. Code* § 31-2-13 (1975). Attorney General Opinion 84-00289, dated May 24, 1984.
- A member of an **appointing authority** (city/county governing body) may be employed by a regional board of health but may not vote on appointments or appropriations to the board. Appointees of the board may be members of the appointing authority, under the facts presented. Attorney General Opinion 85-00018, dated October 10, 1984.
- The **millage tax** collected by DeKalb County pursuant to Amendment No. 65 may be used for supporting the regional mental health center which serves the county, indigent hospital care, and meeting the county's responsibility under the Health Care Responsibility Act. Attorney General Opinion 87-00178, dated May 20, 1987.
- Act No. 310 authorizes counties and municipalities to **contract with the State Board of Health or the Alabama Mental Health Board** in constructing and operating facilities to combat all forms of mental or emotional illness. The facilities receiving funds from federal, state, and local governments are governed by a board of directors whose members are appointed by the governing bodies of cities and counties in which the facilities are located.
- The center as a public corporation created by statute has only the powers conferred by law. The buildings of the center can only be used for those purposes, which are specifically provided for in Act No. 310, which authorized its creation. Attorney General Opinion 87-00181, dated May 20, 1987.
- Regional community mental health boards in **contracting for the construction, operation, and maintenance of mental health facilities** must comply with minimum standards of construction, maintenance and operation adopted by the Alabama Mental Health Finance Authority, but the ultimate direction and control of the facilities and programs rests with the regional boards. Attorney General Opinion 89-00399, dated August 22, 1989.
- **Speech pathologists and audiologists** employed by a mental health center are not exempt from licensure under *Ala. Code* § 34-28A-3(4). Attorney General Opinion 90-00114, dated January 23, 1990.
- A **community mental health center** may not provide services in an area of the State unless the local governing body has approved the application for incorporation or any

amendment thereto setting out the area to be served. It was further opined that local governing bodies may authorize more than one public corporation, "310 Board," to provide community mental health services within its geographical area. Attorney General Opinion 97-00165.

- Funds derived from the tax levied by **Act No. 95-284, as amended by Act No. 97-464**, are to be divided as directed therein. The portion designated for "Mental Retardation 310 Center" is to be distributed equally among the several "310 Boards" in the county which implement the mental retardation aspects of the programs they are authorized by statute to address. Attorney General Opinion 97-00284, dated September 19, 1997.
- A **professional staff member** of a regional mental health agency who meets the Alabama Medicaid Agency or Alabama Department of Mental Health rules and/or requirements to provide examination, assessments, and treatment to persons suffering from a mental illness, may be considered by the probate judge as a "qualified mental health professional" for purposes of *Ala. Code* § 22-52-7(c). Attorney General Opinion 99-00063, dated December 16, 1998.
- The West Alabama Mental Health Board may not form an **executive committee** nor prescribe **qualification standards** for members who may serve as directors of that corporation. Attorney General Opinion 2002-091, dated December 11, 2001.
- The Department of Mental Health and Mental Retardation may transfer equipment purchased with public funds to clients of the Department who are moved from state institutions into community facilities, if the Department determines that the transfer serves a public purpose. Attorney General Opinion 2002-285, dated July 17, 2002.
- The West Alabama Mental Health Board is a **public corporation** subject to the Competitive Bid Law and the Public Works Law. Attorney General Opinion 2003-017, dated October 30, 2002.
- If the Department of Mental Health and Mental Retardation contracts to revise the term of a lease that was executed before the effective date of the Alabama Sales and Lease Land Law, *Ala. Code* § 9-15-70, *et seq.*, is applicable and bidding is required. Attorney General Opinion 2003-205, dated July 30, 2003.
- The Etowah County Northeast Alabama MR/DD Authority (NEA) may **donate funds** to a **nonprofit organization** that provides services to mentally retarded and developmentally disabled individuals in Alabama if the NEA's board of directors determines that a public purpose will be served. The better practice, however, is for the NEA to contract with the nonprofit corporation to provide these services to the clients of NEA. Attorney General Opinion 2005-060, dated January 31, 2005.
- The Riverbend Center for Mental Health and other regional mental health boards in the state are often referred to as 310 boards. Mental health boards are **not exempt** from the provisions of the **Competitive Bid Law**. Attorney General Opinion 2006-004, dated October 4, 2005.

- “310 boards” may **merge or consolidate** provided the boards get appropriate approvals from their governing bodies and the Alabama Department of Mental Health and Mental Retardation. Attorney General Opinion 2006-117, dated July 10, 2006.
- A regional mental health facility that is licensed or certified by the Alabama Department of Mental Health is exempt from payment of ad valorem taxes pursuant to *Ala. Code* § 40-9-23, regardless of the number of patients treated by such facility. Attorney General Opinion 2012-021, dated December 14, 2011.
- The Andalusia City Council cannot appoint a person to represent the City of Andalusia on the South Central Alabama Mental Health Board if the person resides outside of the corporate limits. Attorney General Opinion 2018-019, dated March 7, 2018.
- An individual who is employed by a healthcare provider that transacts business with or offers similar services as the Montgomery Area Mental Health Authority, Inc. is not prohibited from serving as a member of the board of the Authority. A board member should not financially benefit from the business of the Authority and is prohibited from voting or participating in any matter in which he or she has a personal beneficial or financial interest. Attorney General Opinion 2020-004, dated October 30, 2019.

# RESOURCE MATERIALS FOR AUDITS OF MENTAL HEALTH CENTERS

## Examinations of Financial Statements

GASB Codification of Governmental Accounting and Financial Reporting Standards (Can be obtained from: The Governmental Accounting Standards Board (<http://www.gasb.org/>), 401 Merritt 7, P. O. Box 5116, Norwalk, CT, 06856-5116)

AICPA Audit and Accounting Guides – *State and Local Governmental Units* and *Government Auditing Standards and Single Audits*<sup>34</sup>

*AICPA Codification of Statements on Auditing Standards*<sup>35</sup>

## Single Audits

Single Audit Act Amendments of 1996 (Public Law 104-156), as amended.

Uniform Administrative Requirements and Cost Principles for Audits of Federal Awards (“Uniform Guidance”)<sup>36</sup>

*Government Auditing Standards* issued by the Comptroller General of the United States (“Yellow Book”)

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<sup>34</sup> This document may be obtained from the American Institute of Certified Public Accountants, via the internet at <http://www.aicpa.org>

<sup>35</sup> See footnote 36.

<sup>36</sup> These documents may be obtained from the Superintendent of Documents, U. S. Government Printing Office, Washington, D.C. 20402, or via the internet at [www.access.gpo.gov](http://www.access.gpo.gov).