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| **SAMPLE MENTAL HEALTH CENTER  INDEPENDENT AUDITOR’S REPORTS FINANCIAL STATEMENTS SCHEDULE OF FINDINGS**  **JUNE 30, 2020** |

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|  | ====== Office of ======  **AUDITOR OF STATE**  **State Capitol Building • Des Moines, Iowa**  ======================= |
|  |  |
|  | **Rob Sand** **Auditor of State** |

Practitioners:

This sample report is presented by the Office of Auditor of State. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of community mental health centers should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, Title 2, U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

This sample report has been prepared in conformity with U.S. generally accepted accounting principles as set forth in the AICPA Industry Audit and Accounting Guide Not-For-Profit Organizations. The format shows the financial statements and the report on internal control and compliance which are necessary to meet the requirements of this Office. The detail presented in the financial statements is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the Center feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

This sample is prepared based on a non‑profit corporation providing mental health services on the basis of an agreement with the County Board of Supervisors. Some counties may provide mental health services through the establishment of an elected Board of Trustees. This organizational structure may necessitate the consideration of the Governmental Accounting Standards Board's guidance on "The Financial Reporting Entity" and, therefore, other reporting criteria may be applicable.

Depreciation expense has been recognized in these financial statements as recommended by the Industry Audit and Accounting Guide and as required by Financial Accounting Standards Board Statement Number 93.

Centers with $750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the Center’s cognizant or oversight agency.

In accordance with the Uniform Guidance, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse’s Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated e-mails from the Federal Audit Clearinghouse as verification of the submission.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

In accordance with Chapter 230A.110 of the Code of Iowa, a copy of the report should also be filed with the administrator of the Iowa Department of Human Services, Division of Mental Health and Disability Services, Hoover Building, 5th Floor, 1305 East Walnut Street, Des Moines, Iowa 50319 and with each County Board of Supervisors supporting the mental health center.

As required by Chapter 11.14 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the Center for the notification. We have developed a standard news release to be used for this purpose. The news release (paper copy or electronic format) should be completed by the CPA firm or the Center and submitted to this Office with a **text-searchable** electronic copy of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make the audit report and news release available to the news media in this Office.

In accordance with Chapter 11.6(7) of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to local governments and related entities. Together, we are able to provide a significant benefit to all taxpayers in the State.



Rob Sand

Auditor of State

**Report** – The Mental Health Center or CPA firm is required to submit an electronic, **text-searchable**, PDF copy of the audit report, including the management letter(s) if issued separately, with this Office upon release to the Center within nine months following the end of the fiscal year subject to audit. Text-searchable files are required for the following reasons.

* The files created are much smaller in size than scanned-image files. Accordingly, text-searchable files require less storage space.
* Text-searchable files are required by the Census bureau when submitting Data Collection Forms and Single Audit reporting packages (i.e. consistent with Federal requirements).
* Text-searchable files provide transparency to the public.

**Per Diem Audit Billing & News Release** – A copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should also be submitted. These items can be submitted as either paper copies or electronic copies.

**Submission** – Electronic submission (text-searchable PDF) of the audit report, per diem audit billing and news release should be e-mailed to [SubmitReports@AOS.iowa.gov](mailto:SubmitReports@AOS.iowa.gov).

If you are unable to e-mail the PDF files, you may mail a CD containing the files to this Office. You may direct any questions about submitting electronic files to the above e-mail address.

Paper copies (if not submitted electronically) of the per diem audit billing and news release should be sent to the following address:

Office of Auditor of State

State Capitol Building

Room 111

1007 East Grand Avenue

Des Moines, IA 50319-0001

1. Revised the news release to include information on the prior year findings repeated in the current audit.

**Additional Notes**

1. For Mental Health Centers with an early retirement or other benefit plan or policy that meets the definition of a “termination benefit”, as defined by FASB Statement No. 88, see the “Additional Notes” section of the Sample Community School District report for an example footnote disclosure in accordance with GASB Statement No. 47 which may be used for guidance.
2. This sample report does not include a liability for other postemployment benefits or postretirement benefits other than pensions. If the Mental Health Center has an implicit or explicit other postemployment benefit or postretirement benefit other than pensions, the liability should be reported in accordance with similar FASB guidance. Other sample reports issued by the Office of Auditor of State include other postemployment benefit liabilities reported in accordance with GASB Statement No. 75 and these reports may be used for guidance.
3. This sample report does not include intangible assets. If the Mental Health Center has intangible assets, the assets should be reported in accordance with similar FASB guidance. Other sample reports issued by the Office of Auditor of State include intangible assets reported in accordance with GASB Statement No. 51 and these reports can be used for guidance.
4. This sample report does not include Single Audit reporting under the Uniform Guidance. Other sample reports issued by the Office of Auditor of State include federal reporting in accordance with the Uniform Guidance and these reports can be used for guidance.

Sample Mental Health Center

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|  | NEWS RELEASE |  |
|  |  | Contact: |
| FOR RELEASE |  |  |

Auditor of State Rob Sand today released an audit report on Sample Mental Health Center, Anywhere, Iowa.

**FINANCIAL HIGHLIGHTS:**

The Center had public support and revenues of $\_\_\_\_\_\_\_\_\_\_\_\_\_ for the year ended June 30, 2020, which was a(n) \_\_\_\_\_\_\_ % increase (decrease) from the prior year. Expenses for the Center's operations for the year ended June 30, 2020 totaled $\_\_\_\_\_\_\_\_\_\_, a(n)\_\_ % increase (decrease) from the prior year. The significant increase (decrease) in revenues and expenses is due primarily to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**AUDIT FINDINGS:**

Sand reported four findings related to the receipt and expenditure of Sample Mental Health Center funds. They are found on pages 20 through 22 of this report. The findings address issues such as a lack of segregation of duties and material amounts of receivables and property and equipment acquisitions not properly recorded in the Center’s financial statements. Sand provided the Center with recommendations to address each of the findings.

Three of the four findings discussed above are repeated from the prior year. The Board of Directors has a fiduciary responsibility to provide oversight of the Center’s operations and financial transactions. Oversight is typically defined as the “watchful and responsible care” a governing body exercises in its fiduciary capacity.

**(NOTE to CPAs: Include significant finding, including material weaknesses, significant non-compliance and all Federal findings. Auditor judgement should be used to determine which significant deficiencies reported under Government Auditing Standards, if any, should be included.)**

A copy of the audit report is available for review on the Auditor of State’s web site at <https://auditor.iowa.gov/audit-reports>.

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SAMPLE MENTAL HEALTH CENTER  
  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS  
SCHEDULE OF FINDINGS  
  
JUNE 30, 2020

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**Sample Mental Health Center**  
**Board of Directors**

Name Title Expires

Mary Smith President Jan 2022

Bill Jones Vice-President Jan 2021

Joe Miller Secretary Jan 2023

Nancy Moore Treasurer Jan 2022

Bob Martin Member Jan 2021

Jane Brown Member Jan 2022

Sue Long Member Jan 2023

George Hays Executive Director Indefinite

## Independent Auditor's Report

To the Board of Directors of Sample Mental Health Center:

Report on the Financial Statements

We have audited the accompanying Statement of Financial Position of Sample Mental Health Center as of June 30, 2020, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended and the Notes to Financial Statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center’s preparation and fair presentation of the financial statements 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 Center’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Mental Health Center as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2020 on our consideration of Sample Mental Health Center’s internal control over financial reporting and on 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 of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Sample Mental Health Center’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 Sample Mental Health Center’s internal control over financial reporting and compliance.

Marlys K. Gaston, CPA

Deputy Auditor of State

September 17, 2020

Sample Mental Health Center

**Financial Statements**

Sample Mental Health Center  
  
Statement of Financial Position  
  
June 30, 2020



Sample Mental Health Center  
  
Statement of Activities  
  
Year ended June 30, 2020



Sample Mental Health Center

Statement of Functional Expenses

Year ended June 30, 2020



Sample Mental Health Center

Sample Mental Health Center  
  
Statement of Cash Flows  
  
Year ended June 30, 2020



(1) Summary of Significant Accounting Policies

A. Reporting Entity

Sample Mental Health Center is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Sample, Local and Anywhere Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes.

The Center’s financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit corporations.

B. Fund Accounting

The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are summarized as follows in the financial statements:

General Fund – The General Fund accounts for all resources over which the Center has discretionary control to use in carrying on the operations of the organization in accordance with the limitations of its charter and bylaws, except for amounts invested in land, buildings and equipment which may be accounted for in a separate fund.

The Center’s Board may designate portions of the General Fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for any designations within the General Fund and segregates the designated and undesignated portions of the fund within the net assets section of the Statement of Financial Position.

Land, Building and Equipment Fund – The Land, Building and Equipment Fund is used to accumulate the net investment in capital assets and to account for the unexpended resources contributed specifically for the purpose of acquiring or replacing land, buildings or equipment for use in the operations of the Center.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Purchases of property and equipment providing future benefits are directly charged against the Current Fund balance and capitalized in the Land, Building and Equipment Fund.

D. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

E. Assets and Liabilities

The following accounting policies are followed in preparing the Statement of Financial Position:

Cash and Cash Equivalents – The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables – Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of individual patient balances.

Property and Equipment – Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 40 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences – Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of accumulated compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2020.

F. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Total Column

The total column on the Statement of Financial Position and the Statement of Activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Property and Equipment

A summary of property and equipment follows:



(3) Pension and Retirement Plan

The Center contributes to the Center Retirement Plan (CRP), a defined contribution pension plan, for all full-time employees who have completed one year of service. CRP is authorized by the Center’s by-laws which is administered by XYZ Insurance Company.

Benefit terms, including contribution requirements, for CRP are established and may be amended by the Board of Directors. For each employee in the pension plan, the Center is required to contribute 5% of annual salary to an individual employee account. Additionally, each plan participant must contribute 3% of their annual salary and all such payments are accumulated and invested for individual participants of the plan. Amounts credited to individual participants are 100% vested immediately. The accumulated monies are paid upon a participant’s retirement or termination.

For the year ended June 30, 2020, employee contributions totaled $3,565 and the Center recognized pension expense of $5,942.

At June 30, 2020, the Center reported payables to the defined contribution pension plan of $507 for legally required employer contributions and $304 for legally required employee contributions which had been withheld from employee wages but not yet remitted to CRP.

(4) Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Independent Auditor’s 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

To the Board of Directors of Sample Mental Health Center:

We have audited in accordance with U.S. generally accepted auditing standards 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 Sample Mental Health Center, Anywhere, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, and have issued our report thereon dated September 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Mental Health Center’s internal control over financial reporting to determine the audit procedures 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 Sample Mental Health Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Mental Health Center’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 Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the 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 a material misstatement of the Center’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 as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Mental Health Center’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Center’s operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sample Mental Health Center’s Responses to the Findings

Sample Mental Health Center’s responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Sample Mental Health Center’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Center’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 Center’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Marlys K. Gaston, CPA

Deputy Auditor of State

September 17, 2020

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

1. Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Center’s financial statements.

Condition – Generally, one individual in the Center has control over receipts and performs all record-keeping and reconciling functions.

Cause – The Center has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Center’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Center should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff to provide additional control through review of financial transactions, reconciliations and reports.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control.

Conclusion – Response accepted.

1. Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Center’s financial statements.

Condition – Material amounts of receivables and property and equipment acquisitions were not properly recorded in the Center’s financial statements. Adjustments were subsequently made by the Center to properly include these amounts in the financial statements.

Cause – Center policies do not require, and procedures have not been established to require independent review of year end cut-off transactions or property and equipment additions to ensure the Center’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Center employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Center’s financial statements were necessary.

Recommendation – The Center should establish procedures to ensure all receivables and property and equipment acquisitions are identified and properly reported in the Center’s financial statements.

Response – We will double check these in the future to avoid missing any receivables or property and equipment transactions.

Conclusion – Response accepted.

1. Restrictive Endorsement

Criteria – An effective internal control system provides for internal controls related to ensuring the safety of Center assets.

Condition – Restrictive endorsements were not placed on checks immediately upon receipt.

Cause – Procedures have not been designed and implemented to ensure the safety of center assets.

Effect – Lack of restrictive endorsement can result in an opportunity for misappropriation.

Recommendation – Restrictive endorsements should be placed on all checks immediately upon receipt.

Response – We will endorse checks immediately upon receipt.

Conclusion – Response accepted

**Other Findings Related to Required Statutory Reporting:**

1. Unallowable Costs – Of the $3,000 of grant funds tested, $197 was expended for inpatient hospital care which does not appear to be allowable in accordance with grant regulations.

Recommendation – The Center should contact the Iowa Department of Human Services to determine the disposition of this matter.

Response – We will contact the Iowa Department of Human Services immediately.

Conclusion – Response accepted.

This audit was performed by:

Marlys K. Gaston, CPA, Deputy

Joan Q. Review, CPA, Manager

Jerome Warning, CPA, Senior Auditor