
MENTAL HEALTH CLINIC OF
TAMA COUNTY
TOLEDO, IOWA

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2012



**CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Table of Contents

		Page
Board of Directors		1
Independent Auditors' Report		2
Financial Statements:	Exhibit	
Statement of Financial Position	A	3
Statement of Activities	B	4
Statement of Functional Expenses	C	5
Statement of Cash Flows	D	6
Notes to Financial Statements		7 - 11
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		12 - 13
Schedule of Findings		14 - 16

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Board of Directors
June 30, 2012

Name	Title	Term Expires
Berleen Wobeter	President	9/2012
Anita Townsley	Secretary/Treasurer	9/2012
Dan Wilkens	Member	N/A
Larry Vest	Member	N/A
Kendall Jordan	Member	N/A
Mike Gilchrist	Member	9/2012
Linda Rosenberger	Member	9/2013
Christopher Winkelpleck	Member	9/2013
Pastor Brian Oliver	Member	9/2013
Larry Hassman	Member	7/2015

Independent Auditors' Report

Board of Directors
Mental Health Clinic of Tama County
Toledo, Iowa

We have audited the accompanying statement of financial position of Mental Health Clinic of Tama County, (a nonprofit organization) as of the year ended June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Clinic's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mental Health Clinic of Tama County, at June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2012 on our consideration of Mental Health Clinic of Tama County'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Carney, Alexander, Marold & Co., L.L.P.

November 8, 2012

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit A

Statement of Financial Position
As of June 30, 2012

	2012
- ASSETS -	
Cash and cash equivalents	\$ 11,354
Cash and cash equivalents - restricted by loan covenant	11,700
Accounts receivable, patient services, less allowance for uncollectible accounts of \$15,748	52,720
Grants receivable	11,083
Prepaid expense	786
	<u>87,643</u>
Property and Equipment:	
Building	188,618
Land	2,500
Equipment	46,637
	<u>237,755</u>
Less accumulated depreciation	144,455
	<u>93,300</u>
 Total Assets	 <u><u>\$180,943</u></u>
- LIABILITIES -	
Accounts payable	\$ 17,206
Payroll liabilities	6,652
Accrued vacation	25,983
Note payable	136,631
Line-of-credit	25,000
	<u>211,472</u>
 Total Liabilities	 <u>211,472</u>
- NET ASSETS -	
Unrestricted	(43,573)
Temporarily restricted	13,044
	<u>(30,529)</u>
 Total Net Assets	 <u>(30,529)</u>
 Total Liabilities and Net Assets	 <u><u>\$180,943</u></u>

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit B

Statement of Activities
For the Year Ended June 30, 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
Tama County	\$ 163,193	\$ -	\$ 163,193
Other county and state payments	17,593	-	17,593
Federal, State and other program grants	63,929	1,344	65,273
Contributions	100	-	100
	244,815	1,344	246,159
Revenues:			
Fees from patients	489,671	-	489,671
Interest income	184	-	184
	489,855	-	489,855
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	-	-	-
	-	-	-
Total Public Support and Revenues	734,670	1,344	736,014
Expenses:			
Program services	638,080	-	638,080
Support services	139,255	-	139,255
Fundraising services	1,000	-	1,000
	778,335	-	778,335
Change in Net Assets	(43,665)	1,344	(42,321)
Net Assets, Beginning of Year	92	11,700	11,792
Net Assets, End of Year	\$ (43,573)	\$ 13,044	\$ (30,529)

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit C

Statement of Functional Expenses
For the Year Ended June 30, 2012

	2012			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 366,020	\$ 94,918	\$ 1,000	\$ 461,938
Payroll taxes	25,579	6,800	-	32,379
Retirement	19,950	5,303	-	25,253
Fringe benefits	42,809	11,380	-	54,189
Total Salaries and Related Expenses	454,358	118,401	1,000	573,759
Insurance	10,559	2,640	-	13,199
Rent	3,683	921	-	4,604
Contract labor	100,308	-	-	100,308
Advertising	434	108	-	542
Dues and subscriptions	3,478	870	-	4,348
Office supplies	10,058	2,514	-	12,572
Equipment maintenance	3,789	947	-	4,736
Leased equipment	4,397	1,099	-	5,496
Telephone	5,625	1,406	-	7,031
Building maintenance	4,523	1,131	-	5,654
Utilities	3,478	870	-	4,348
Travel expense	10,044	2,511	-	12,555
Accounting fees	4,200	1,050	-	5,250
Interest expense	6,743	1,686	-	8,429
Other	7,912	1,978	-	9,890
Total Expenses Before Depreciation and Amortization	633,589	138,132	1,000	772,721
Depreciation and amortization	4,491	1,123	-	5,614
Total Expenses	\$ 638,080	\$ 139,255	\$ 1,000	\$ 778,335

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit D

Statement of Cash Flows
For the Year Ended June 30, 2012

	2012
Cash Flows from Operating Activities:	
Change in net assets	\$ (42,321)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation of buildings and equipment	5,614
Loss on disposal of fixed assets	4,936
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	52,244
Grant income receivable	(11,083)
Prepaid expenses	555
Increase (decrease) in:	
Accounts payable	12,128
Accrued withholdings	(751)
Accrued vacation	(13,833)
	7,489
Net Cash Provided By Operating Activities	7,489
Cash Flows from Investing Activities:	
Purchase of fixed assets	(1,976)
	(1,976)
Net Cash Used By Investing Activities	(1,976)
Cash Flows from Financing Activities:	
Proceeds from line of credit	25,000
Payments on notes payable	(8,454)
	16,546
Net Cash Provided By Financing Activities	16,546
Net Change in Cash and Cash Equivalents	22,059
Cash and Cash Equivalents at Beginning of Year	995
Cash and Cash Equivalents at End of Year	\$ 23,054
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for:	
Interest	\$ 8,429
Income tax	-

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Clinic 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 primarily to residents of Tama County.

B. 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 accounting principles generally accepted in the United States of America for not for profit organizations. Revenues are recognized when earned and expenses are recorded when the liability is incurred, if measurable.

Purchases of fixed assets providing future benefits are capitalized and depreciated over their estimated useful lives.

C. Basis of Presentation

The Clinic has adopted the Financial Accounting Standards Board (FASB) reporting requirements for not for profit organizations. Under those standards, the Clinic is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the standards, the Clinic does not use fund accounting.

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 Clinic and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets whose use by the Clinic has been limited by donor-imposed restrictions, such as specified dates and/or purposes.

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.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of financial position:

Cash and Cash Equivalents - The Clinic considers savings accounts, certificates of deposit and all other highly liquid investments 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 all the individual patient balances. Accounts are determined to be past due based on how recently payments have been received.

Property and Equipment - Property and equipment are stated at cost if purchased or fair market value at the date of the gift if donated. Depreciation is computed by the straight-line method over the estimated useful lives of 5 - 40 years. Any property and equipment purchased with a cost of \$1,000 or higher will be capitalized and depreciated.

Compensated Absences - Clinic employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing an estimate of the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2012.

E. Net Patient Service Revenue

Patient service revenue is reported at the estimated net 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.

F. Contributions

Contributions to the Clinic which are received from the public are considered available for unrestricted use, unless specifically restricted by the donor. No restricted contributions were received for the year ended June 30, 2012. No amounts are reflected in these financial statements for donated services rendered for the Clinic since no objective basis is available to measure the value of such services.

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

H. Income Taxes

The Clinic 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 provides tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. Accordingly, no provision for income taxes is reflected in the financial statements.

The Clinic has adopted the FASB standards regarding uncertain tax positions which requires evaluation of the impact of uncertain tax positions taken or expected to be taken on a tax return. In some instances, the Clinic may be required to recognize a liability related to those tax positions. In evaluating the Clinic's tax provisions and accruals, interpretations and tax planning strategies are considered. At June 30, 2012, the Clinic had no uncertain tax positions requiring recognition in the financial statements. The Clinic's income tax filings prior to 2009 are no longer subject to audit by the federal and state taxing authorities. Interest and penalties incurred, if any, when filing income tax returns are recognized in the Statement of Activities.

(2) Property and Equipment

A summary of property and equipment at June 30, 2012, is as follows:

Buildings	\$ 188,618
Land	2,500
Equipment	46,637
Total	237,755
Less: Accumulated Depreciation	144,455
Net Book Value	\$ 93,300

Depreciation expense for 2012 was \$5,614.

(3) Leases

The Clinic is obligated under two noncancelable operating leases for office equipment. The first is a copier with monthly payments of \$239 per month ending March 30, 2015. The other is a second copier with monthly payments of \$219 ending January 10, 2016.

Lease payments made on all leases during the year ended June 30, 2012, were \$5,496.

The future minimum lease payments for the next five years required under the leases mentioned above are as follows:

Years ending June 30:	2013	\$	5,496
	2014		5,496
	2015		4,779
	2016		1,314
	2017		-

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(4) Annuities

The Clinic contributed 4% of the salaries of full-time employees to a tax sheltered annuity of the employees choice. The payments are 100% vested immediately upon contribution. The Clinic's required and actual contributions for the year ended June 30, 2012 was \$25,253.

(5) Debt

On March 13, 1992, the Clinic financed \$180,000 to build a new facility through USDA-Rural Development, in the form of two notes. One note for \$145,000 and the second for \$35,000. The loans are secured by the facility. The loans contain a covenant that requires the sum of one year's payments be kept as restricted assets. The notes are based on a forty year amortization, with monthly payments of \$785 and \$190, respectively, with final payments due March 13, 2032. At June 30, 2012 the balances were \$110,263 and \$26,368, respectively.

During the current year the Clinic obtained a line-of-credit from State Bank of Toledo. Borrowings were not to exceed \$30,000. The loan is secured by the general assets of the Clinic. Interest payments are due monthly at a rate of 3.25%. The loan was originally due July 19, 2012, but was subsequently renewed at 3.25% with a new maturity date of August 17, 2013. At June 30, 2012 the balance was \$25,000.

On August 29, 2008, the Clinic financed \$10,056 for a roof through a note obtained from State Bank of Toledo. The note had a five year term, calculated interest at a rate of 6.0% and called for monthly payments of \$194. At June 30, 2012 the balance was \$0.

Total interest expense for the year ended June 30, 2012 was \$8,429.

As of June 30, 2012, maturities of the loans were as follows:

Years ending June 30:	
2013	\$ 3,994
2014	29,229
2015	4,478
2016	4,743
2017	5,022

(6) Financial Instruments and Credit Risk

The Clinic grants credit in the form of accounts receivable for services rendered. The accounts receivable are collectible from individuals receiving service and in many cases third party payors such as insurance carriers. The Clinic received 67% of its total public support and revenue for years ended June 30, 2012 from Tama County.

The Clinic's financial instruments consist of cash and short-term receivables and payables. The carrying value for all such instruments, considering the terms, approximated fair value at June 30, 2012.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(7) Risk Management

Mental Health Clinic of Tama County 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 Clinic 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.

(8) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2012
Funds placed under temporary restriction as required by grant stipulations	\$ 1,344
Funds placed under temporary restriction as required by loan covenants	<u>11,700</u>
Net assets placed under restriction	<u>\$ 13,044</u>

Temporarily restricted net assets at June 30, 2012 consist of cash and cash equivalents of \$13,044.

(9) Subsequent Events

As indicated in the accompanying financial statements, the Clinic showed a decrease in net assets of \$42,321 during the year ended June 30, 2012. Management and its board of directors have acknowledged it would be difficult for the Clinic to continue operating while reporting such losses. Subsequent to year end the board of directors began negotiations to merge with another mental health center.

Management has evaluated subsequent events through November 8, 2012, the date on which the financial statements were available to be issued.

Independent Auditors' 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
Mental Health Clinic of Tama County
Toledo, Iowa

We have audited the financial statements of Mental Health Clinic of Tama County (a nonprofit organization) as of the year ended June 30, 2012, and have issued our report thereon dated November 8, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Mental Health Clinic of Tama County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Mental Health Clinic of Tama County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Clinic of Tama County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 significant 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. We consider the deficiencies described in I and II in the accompanying schedule of findings to be material weaknesses.

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 III through VI in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mental Health Clinic of Tama County'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 would 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Clinic's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Clinic. 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.

Mental Health Clinic of Tama County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Clinic's responses, we did not audit Mental Health Clinic of Tama County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of Mental Health Clinic of Tama County, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mental Health Clinic of Tama County 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.

Corney Alexander, Russell & Co., L.L.P.

November 8, 2012

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Schedule of Findings

Year Ended June 30, 2012

Findings Related to the Financial Statements:

Internal Control Deficiencies

- (I) Financial Accounting Procedures - It came to our attention during our audit that the understanding of double-entry accounting by Clinic personnel was minimal, if at all. Information was entered into the accounting software without understanding the cause and effect of the entries. Entries to record revenue and collections on accounts were recorded without consideration of the effect they had on other accounts. Accounts receivable balances on the general ledger were not properly reconciled to the detailed listing of outstanding account balances. Cash account balances were not correctly reconciled between the bank balance and general ledger balance. This material weakness creates several accounts that could have material misstatements because proper recording and reconciling functions were not used and significant adjustment of account balances were required at year end.

Recommendation - The Clinic has hired a new office manager with suitable accounting knowledge and training. We recommend that the new office manager ensure proper entry procedures are occurring in the Center's accounting software, and reconciliation of accounts is completed in a timely manner.

Response - The Clinic was aware of the previous Office Manager's lack of accounting experience and knowledge. The current office manger has ensured the proper reconciliation procedures to employ from here forward and has made corrections to accounting errors for the current fiscal year.

Conclusion - Response accepted.

- (II) Month End Closing Procedures and Document Retention - During our audit, we came across instances where information could no longer be retrieved from the Center's patient records software that would have been useful in completing the account reconciliations referred to in the previous finding. Such information is imperative to reconcile and support account balances on the Center's accounting software. Copies of patient billing invoices also are not kept once they are mailed to the patient. This report is not able to be recreated once month end happens. If a patient would want to have a duplicate copy of their account statement created this would not be possible as the Center does not retain a copy.

Recommendation - We recommend that a clear month end closing procedure policy be created and adhered to in order to ensure that proper reports are being created and archived to ensure availability for reconciliation and audit. The clinic's software should not be advanced to the next period until all required reports have been generated and stored either in print or electronically.

Response - A copy of the patient monthly statements is now kept on hand at each run. A monthly reconciliation of accounts receivable will be completed at each month end before closing the billing month within the software.

Conclusion - Response accepted.

(III) Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees. Recordkeeping is primarily done by the office bookkeeper and office manager. Because of the limited number of employees, they perform some cash-related duties that are incompatible.

Recommendation - We realize that segregation of duties is difficult, if not impossible, in a small office; however, we feel that a reminder of this is justified so as to provide attention to those areas throughout the year and that operating procedures be continually reviewed to obtain the maximum internal control possible under the circumstances.

Response - Internal accounting controls are being reviewed for the cash-related duties of the Clinic.

Conclusion - Response accepted.

(IV) Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of activities, cash flows and disclosures in the financial statements, in conformity with accounting principals generally accepted in the United States of America (GAAP). Mental Health Clinic of Tama County has not implemented a system to allow accounting personnel to prepare the financial statements (including footnote disclosures) in conformity with GAAP; therefore, it relies on its auditors to prepare such statements at year end.

Recommendation - The Clinic should develop a system that allows its internally prepared monthly financial statements to be prepared in accordance with generally accepted accounting principles.

Response - The current Office Manager is aware of the need to prepare financial statements in accordance with GAAP and will employ these principles from this point forward.

Conclusion - Response accepted.

(V) Cash receipts - Currently cash receipts, both over the counter and mail receipts, are stored in an unlocked drawer that can sometimes be left unattended. Also, cash receipts that the Clinic receives through the mail do not have a paper trail that can be traced back to the source document. These deficiencies create an environment that is susceptible to misappropriation of the Clinics' assets.

Recommendation - We recommend the Center's cash receipts be documented through a paper trail in some manner. Having the person opening the mail or receiving cash create a log of receipts would be a way to achieve this. We also suggested that cash and checks be secured in a locked area when unattended, even for a short period of time.

Response - The Clinic's cash receipts are tracked through a numeric receipt book. The Office Manager will check each daily receipt carbon copy to make sure there are no gaps in the numeric order of the daily cash receipts.

Conclusion - Response accepted.

(VI) Cash Disbursements and Check Writing - Mental Health Clinic of Tama County's accounting software creates checks for all cash disbursements out of the system, even if these payments happened electronically from the Clinic's financial institution. It appears that when these checks are created they are improperly being voided and discarded. We have seen some instances where unvoided checks were included with the corresponding invoice. These unvoided checks can still be presented for payment at a financial institution. We also noted that it appears checks are being written out of sequential order. The sequential order numbering helps to verify all checks are accounted for and not missing. Using them out of order creates issues in verifying and reconciling accounts.

Recommendation - While some software issues can not be helped, we recommend that when the software creates these "dummy" checks, a system for properly voiding and retaining of the checks should be in place so that live checks are not out there to potentially be presented for payment. We also believe that a system should be put in place to ensure sequential use of the center's pre-numbered checks.

Response - A system has been implemented for creating "dummy" checks for electronic payments whereas the check has the sequential number but is printed on plain white paper and stored in the appropriate payable file.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

No instances of non-compliance were noted