



PUBLIC MENTAL HEALTH CENTERS AUDIT GUIDE

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CHIEF EXAMINER**

June 1, 2018

**To: Users of Department of Examiners of Public Accounts Audit Guide for
Audits of Public Mental Health Centers**

This audit 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 June 15, 2014 or later.

The objective of the audit guide is to promote better, more consistent audit coverage of the stewardship of Alabama Taxpayer's money and to ensure that officials uphold the public trust.

Changes were made throughout this document. Below is a brief summary of the significant changes made in this revision:

1. Changes in Terminology due to 2 CFR 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
2. Update Pension Data requirements due to Pension Standards
3. Update Sample Exhibits
4. Update Note Disclosure Checklist

Your cooperation is appreciated and suggestions for improvements to this guide are welcomed.

Sincerely,

A handwritten signature in cursive script, appearing to read 'M.L.R.', positioned above the printed name.

Rachel Laurie Riddle
CHIEF EXAMINER

**PUBLIC MENTAL HEALTH CENTERS
CONTENTS**

	<u>Page</u>
I. INTRODUCTION.....	1
II. EFFECTIVE DATE.....	3
III. CHIEF EXAMINER TO RECEIVE NOTIFICATION OF ENGAGEMENT.....	3
IV. CONTACTS WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS ...	4
V. AUDIT SCOPE	4
VI. STANDARDS OF FIELD WORK	5
VII. REPORTING STANDARDS	7
A. Financial Statements.....	7
B. Required Supplementary Information (RSI).....	10
C. Financial and Legal Compliance Audits	12
D. Federal Compliance Audits (Uniform Guidance Audits)	13
1. Reporting Package	13
2. Auditee’s Responsibility.....	14
a) Schedule of Expenditures of Federal Awards	14
b) Summary Schedule of Prior Audit Findings	15
c) Corrective Action Plan.....	15
d) Data Collection Form	15
3. Auditor’s Reports and Schedules.....	16
a) Independent Auditor’s Report.....	16
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 <i>Government Auditing Standards</i>	16
c) Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance As Required by the Uniform Guidance	17
d) Schedule of Findings and Questioned Costs.....	17
E. Additional Reporting Requirements.....	21
VIII. PROCEDURES FOR REPORTING.....	21
A. Form and Content	21
B. SAFE Program	22
C. Special Reports.....	23
D. Audit Report Distribution.....	23
E. Additional Statements on Auditing Standards and Accounting Pronouncements.....	24
APPENDIX I – SAMPLE AUDIT REPORT OF MENTAL HEALTH CENTER BOARD	25
Independent Auditor's Report	28

Balance Sheet.....	32
Statements of Revenues, Expenses, and Changes in Net Position	33
Statements of Cash Flows.....	34
REQUIRED SUPPLEMENTARY INFORMATION	39
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY	40
SCHEDULE OF COUNTY CONTRIBUTIONS	41
SUPPLEMENTARY INFORMATION	42
Schedule of Revenues.....	43
Schedule of Expenses	44
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	45
ADDITIONAL INFORMATION	47
Board of Directors and Officials	48
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL REQUIRED BY THE <i>UNIFORM GUIDANCE</i>	57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	64
REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT	69
Summary Schedule of Prior Audit Findings.....	71
Corrective Action Plan.....	72
APPENDIX II	73
PROLOGUE	74
RESOURCE MATERIALS FOR AUDITS OF MENTAL HEALTH CENTERS.....	83

I. INTRODUCTION

This manual was prepared and promulgated by the Department of Examiners of Public Accounts (EPA) under the authority and responsibility provided by Act. No. 205, Acts of Alabama 1967, Page 569. Act No. 205 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, and other publicly owned medical institutions. These audits must be made in accordance with procedures promulgated by the Chief Examiner of Public Accounts (Chief Examiner).

Specifically, this manual establishes uniform auditing and reporting standards for audits of mental health centers organized under Act No. 310, Acts of Alabama 1967, page 853, which fulfill requirements of the Code of Alabama 1975, § 22-21-4 and §§ 41-5-1 through 41-5-24¹. This manual establishes that audits of mental health centers are to be made 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

Appendix XI to 2 CFR Part 200 – Compliance Supplement

¹ Act 2018-129, Acts of Alabama, repealed Sections 41-5-1 through 41-5-24 which established the Department of Examiners of Public Accounts and created a new section of the Code 41-5A-1 through 41-5A-22.

As additional statements and pronouncements are issued by the authoritative accounting and auditing standard-setting bodies, they should be adopted and incorporated into this manual unless they are specifically excluded by the Department of Examiners of Public Accounts.

The Single Audit Act Amendments of 1996 established requirements of audits of the Center's financial statements and for testing and reporting on internal controls and compliance with laws and regulations relevant to federal award programs. The audit requirements set forth by the Uniform Guidance is located in 2 CFR part 200, subpart F. The auditee's fiscal year end will dictate whether the audit is to be conducted under Circular A-133 or under subpart F of the Uniform Guidance. The Uniform Guidance superseded OMB Circular A-133 effective for audits of periods beginning on or after December 26, 2014. Audits of earlier periods must still be conducted under OMB Circular A-133. Regardless of whether the audit is conducted under Circular A-133 or under subpart F of the Uniform Guidance, the auditor may need to test awards that are subject to two different sets of administrative requirements and cost principles. Award recipients have 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. Previous awards and funding increments that do not have modified terms and conditions are subject to the previous administrative requirements and cost principles. 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 \$750,000 a year or more in federal awards. 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 of Examiners of Public Accounts.

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 of Examiners of Public Accounts Coordinator of Mental Health Audits.

II. EFFECTIVE DATE

The provisions of this manual are effective immediately upon issuance.

III. CHIEF EXAMINER TO RECEIVE NOTIFICATION OF ENGAGEMENT

The *Code of Alabama 1975*, Section 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 . . .*” In accordance with the *Code of Alabama 1975*, the governing board of all public mental health centers shall notify this office of any audit engagement. Acceptable forms of notification include: a copy of the engagement letter signed by a representative of the governing board or a letter of transmittal signed by a representative of the governing board accompanying an engagement letter. The engagement letter must include a statement that the audit will be performed in accordance with the Public Mental

Health Centers Audit Guide published by the Alabama **Department of Examiners of Public Accounts**.

IV. CONTACTS WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS

The following address should be used for correspondence:

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

The Department will provide technical assistance upon request. Requests may be made in writing or by telephone at (334) 242-9200. Contact with the Chief Examiner should be made by the auditor when:

- a. The auditor is engaged.
- b. Evidence of fraud, abuse, irregularities, or illegal acts is discovered.
- c. There is uncertainty about audit requirements.
- d. The auditor cannot gain access to necessary records.
- e. The report is completed and ready for submission to the Chief Examiner.

V. AUDIT SCOPE

The scope of the audit 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 of Examiners of Public Accounts (EPA) has adopted certain additions to the standards for field work as described for financial audits in the Yellow Book. EPA 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 of Examiners of Public Accounts, 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 of Examiners of Public Accounts, Coordinator of Mental Health Audits.

- c. The Chief Examiner requires that the Department of Examiners of Public Accounts, 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 draft copy of the report should be sent to the Coordinator of Mental Health Audits upon completion of the audit. After review of the draft report, 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 send the final corrected copy of the report and a pdf file 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 mental health center being audited.

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. Earlier application was encouraged.

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. Governmental activities generally 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 (See GASB Codification Sp20):

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

Assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities. Either a net position format – assets plus deferred outflows of resources less liabilities less deferred inflows of resources equal net position – or a balance sheet format – assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position – may be used. The entity should also establish a policy that defines operating revenues and expenses and disclose it in the

summary of significant accounting policies. (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, five types of RSI may be required to be presented – 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), and 5) 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 and agent employer 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-employee 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 funding progress with information measured as of the measurement date of the 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.

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)
- 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 (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 or not 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 relative to Federal Awards. 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, regulations, and the provisions of contracts or grant agreements, 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 requirements of laws, regulations, contracts and grants applicable to major 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 the financial statements (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 programs were disclosed by the audit.
 - e. the type of report the auditor issued on compliance for major 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 of the Uniform Guidance.
 - g. an identification of major programs.
 - h. the dollar threshold used to distinguish between Type A and Type B programs.
 - 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 of the Uniform Guidance. Section 200.516 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 determination of whether noncompliance is material for reporting purposes should be 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. 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 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, 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 of Examiners of Public Accounts (EPA) 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 of Examiners of Public Accounts, Coordinator of Mental Health Audits also be notified.
2. The Chief Examiner requires that the Department of Examiners of Public Accounts, 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 Act No. 310, Acts of Alabama 1967, 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 the *Code of Alabama 1975*, Sections 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.

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 a part of the permanent file.

D. Audit Report Distribution

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. If a time extension is needed, a request should be made in writing to the Coordinator of Mental Health Audits. 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 Director, one

copy for each Board member (if the auditor has not furnished a copy to Board members), a pdf file and 10 extra copies of the audit report to the Chief Examiner. The cover letter accompanying the final report sent to the Coordinator of Mental Health Audits should state that a copy of the report has been provided to all Board members. The distribution and release of the reports forwarded to the EPA 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

CONTENTS

	<u>Page</u>
Independent Auditor's Report	28-31
Management's Discussion and Analysis (not illustrated)	
Balance Sheet	32
Statement of Revenues, Expenses & Changes in Net Position	33
Statement of Cash Flows	34-36
Notes to the Financial Statements	37-40
Required Supplementary Information	41
Supplementary Information	44
Schedule of Revenues	45
Schedule of Expenses	46
Schedule of Expenditures of Federal Awards	47
Notes to the Schedule of Expenditures of Federal Awards	48
Additional Information	49
Board of Directors and Officials	50
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51-58
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance	59-65
Schedule of Findings and Questioned Costs	66-70
Report on Compliance with Department of Mental Health	71-72
Summary Schedule of Prior Audit Findings	73
Auditee Response/Corrective Action Plan	74

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

[To the President and Members of the Board of Directors]²

Report on the Financial Statements

We have audited the accompanying basic financial statements of the _____, Mental Health Board, 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's basic financial statements as listed in the table of contents as Exhibits ____ through ____.

Management's Responsibility 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; this includes 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.

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 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.³ 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 entity'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 entity'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.

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

³ This report assumes that the audit is being performed in accordance with *Government Auditing Standards*. The following modification would be made if the audit is being conducted with generally accepted auditing standards:

We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the _____Mental Health Board, Inc. as of September 30, 20X1, and September 30, 20X2 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America⁴

Other Matters

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 and budgetary comparison information*] on pages XX-XX and XX-XX be presented to supplement the basic financial statements. Such information, 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 on 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*⁵

⁴ In the opinion paragraph, the terms financial position and changes in financial position could be replaced with terms that would be more descriptive in the circumstances. For example, in a report on a public employee retirement system, the terms plan net position or fiduciary net position and changes in plan net position or changes in fiduciary net position might be used.

⁵ This section within the “Other Matters” section of the report is intended to include the reporting on supplementary information (SI) when the auditor has been engaged to provide an “in-relation-to” opinion on SI. If other information (OI) is presented in this report and auditor is disclaiming an opinion on OI, explanatory language would be added and the heading could be alternatively titled “Other Information”, “Supplementary and Other Information” or “Accompanying Information”. **However, the auditor is not required by AU-C section 720, *Other Information in Documents Containing Audited Financial Statements, [AICPA Professional Standards]* to report on OI. If the auditor decides to disclaim an opinion on OI then the report should be modified as indicated in footnotes 6 and 7.**

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 Principles, and Audit Requirements for Federal Awards*⁶ [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.

The accompanying Schedule of Expenditures of Federal Awards (identify any other supplementary 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. Such 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 records and other records used to prepare the basic financial statements or other 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 (identify any other supplementary information) is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.⁷

Other Reporting Required by Government Auditing Standards⁸

⁶ Only include if other information is presented and include the following phrase and identify the other information:

“and the other information, {identify the other information, such as the introductory and statistical section}”

⁷ If there is other information (OI) contained in the report add the following paragraph:

The [identify the accompanying other information] has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

⁸ 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.**

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 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 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. ⁹

Signature/Firm Name

City, State

DATE - (Auditor's Opinion Date)

⁹ 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.**Balance Sheet**
September 30, 2XX7 and 2XX6 (In Thousands)

	<u>20XX</u>	<u>20XX</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
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	<u>XXXXXX</u>	<u>XXXXXX</u>
<u>NonCurrent Assets</u>		
Restricted Cash and Cash Equivalents	XXXXXX	XXXXXX
Capital Assets: Land	XXXXXX	XXXXXX
Depreciable buildings, property and equipment, net	XXXXXX	XXXXXX
Total Noncurrent Assets	<u>XXXXXX</u>	<u>XXXXXX</u>
Total Assets	<u>\$XXXXXX</u>	<u>\$XXXXXX</u>
<u>Deferred Outflows of Resources</u>		
Related to Define Benefit Pension Plan	<u>\$XXXXXX</u>	<u>\$XXXXXX</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
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	<u>XXXXXX</u>	<u>XXXXXX</u>
<u>Noncurrent Liabilities</u>		
Net Pension Liability	XXXXXX	XXXXXX
Compensated Absences	XXXXXX	XXXXXX
Notes Payable	XXXXXX	XXXXXX
Other Liabilities	XXXXXX	XXXXXX
Total Noncurrent Liabilities	<u>XXXXXX</u>	<u>XXXXXX</u>
Total Liabilities	<u>XXXXXX</u>	<u>XXXXXX</u>
<u>Deferred Inflows of Resources</u>		
Related to Defined Benefit Pension Plan	<u>XXXXXX</u>	<u>XXXXXX</u>
<u>NET POSITION</u>		
Invested in Capital Assets	XXXXXX	XXXXXX
Restricted for:		
Debt Service	XXXXXX	XXXXXX
Other	XXXXXX	XXXXXX
Unrestricted	XXXXXX	XXXXXX
Total Net Position	<u>\$XXXXXX</u>	<u>\$XXXXXX</u>

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, 2XX7 and 2XX6

	<u>20XX</u>	<u>20XX</u>
<u>OPERATING REVENUES</u>		
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>
<u>OPERATING EXPENSES*</u>		
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>
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>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patients	\$XXXXX	\$XXXXX
Payments to Employees	XXXXX	XXXXX
Payments to Suppliers and Others	XXXXX	XXXXX
Other Receipts (Payments)	XXXXX	XXXXX
Net Cash Provided (Used) by Noncapital Financing Activities	<u>XXXXX</u>	<u>XXXXX</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
Gifts and Grants received for other than Capital Purposes	XXXXX	XXXXX
Net Cash Provided (Used) by Noncapital Financing Activities	<u>XXXXX</u>	<u>XXXXX</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds from Capital Debt	XXXXX	XXXXX
Capital Grants and Gifts	XXXXX	XXXXX
Proceeds from Sale of Capital Assets	XXXXX	XXXXX
Purchases of Capital Assets Principal	XXXXX	XXXXX
Paid on Capital Debt Interest	XXXXX	XXXXX
Paid on Capital Debt	XXXXX	XXXXX
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>XXXXX</u>	<u>XXXXX</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from Sales and Maturities of Investments	XXXXX	XXXXX
Interest on Investments	XXXXX	XXXXX
Purchase of Investments	XXXXX	XXXXX
Net Cash Provided (Used) by Investing Activities	<u>XXXXX</u>	<u>XXXXX</u>
Net Increase (Decrease) in Cash and Cash Equivalents	XXXXX	XXXXX
Cash and Cash Equivalents - Beginning of Year	<u>XXXXX</u>	<u>XXXXX</u>
Cash and Cash Equivalents - Ending of Year	<u>XXXXX</u>	<u>XXXXX</u>
<u>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:</u>		
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. 2100.109-111, 2600.121)
B. Government-Wide and Fund Financial Statements
(1) Description of government-wide financial statements (GASB Cod. Sec. 2200.111)
(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.
(3) Transactions included in program revenues and policy for allocating indirect expenses to functions (GASB Cod. Sec. 2200.135 - .139)
(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)
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) and fund financial statements
(2) Policy for eliminating internal activities (GASB Cod. Sec. 2200.151)
(3) Revenue recognition policies used in fund financial statements (GASB Cod. Sec. 1600.106 - .115; .130; .138)
(4) Restricted/Unrestricted resources used (GASB Cod. Sec. 1800.157 - .160)
(5) Operating and Nonoperating Revenues (GASB Cod Sec. P80.115)
(6) Effect of component units with differing fiscal years. (GASB Cod. Sec. 2600.119-.120)
D. Assets, Liabilities, and Net Position/Fund Balances (describe in order of appearance)
(1) Deposits and Investments (GASB Cod Sec. 2450.106 - .108) (C20.103-.105; I50)
(2) Reverse Repurchase and Dollar Reverse Repurchase Agreements (GASB Cod. Sec. I55.106 - .114)
(3) Receivables
(4) Inventories
(5) Prepaid Items
(6) Capital Assets (GASB Cod. Sec. 1400.112, 117-.119 and .121)
(a) Policy for capitalizing assets and estimating useful lives (GASB Cod. Sec. 1400.102 and .104)
(b) Modified Approach (GASB Cod. Section 1400.105-.108)
(7) Long-Term Obligations

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

(a) Bond Discounts/Premiums
(8) Compensated Absences (GASB Cod. Sec. C60-107-.111)
(9) Net Position (GASB Cod. Sec. 1800.141)
(10) Fund Balance Classification Details (GASB Cod. Section 1800.165, .183 - .185) 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
(11) Fund Balance Classification Policies and Procedures (GASB Cod. Section 1800.178)
(12) Minimum Fund Balance Policies (GASB Cod. Section 1800.187)
2. Reconciliation of Government-Wide and Fund Financial Statements (GASB Cod. Sec. 2200.169) Use only when information in exhibits is aggregated and obscures individual elements of reconciling items.
3. Stabilization Arrangements (See GASB Cod. Section 1800.180)
4. Information about Major Special Revenue Funds (See Section GASB Cod. 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. 1200.113)
B. Budgets
C. Deficit Net Position/Fund Balances of Individual Funds (GASB Cod. Sec. 2300.106)
6. Deposits and Investments (Including Derivatives & Similar Debt, if applicable) (GASB Cod. Sec. C20 & I50 and GASB Technical Bulletin 94-1) Beginning with FY 05 audit, apply GASB Statement No. 40 note.
7. Securities Lending Transactions (GASB Cod. Sec. I60.109-.114)
8. Derivatives (GASB Cod. Sec. D40.164-.175)
9. Receivables (GASB Cod. Sec. 2300.125)
10. Capital Assets, including Collections not Capitalized (GASB Cod. Sec. 1400 & 2300.117-.119 & .115)
11. Capital Asset Impairments (GASB Cod. 1400.192, .195 and .196)
12. Termination Benefits (effective for FY 06 audits. GASB Cod. Sec. T25)
13. Pension Plan Obligations (GASB Cod. Sec. P20, P21 and Pe5 and Po50)
14. Sponsoring Governments Disclosures about External Investment Pools reported as investment trusts (See GASB Cod. Sec. IN5, Investment Pools (External), para. 103)
15. Postemployment Benefits other than Pension Benefits (GASB Cod. Sec. P50.105 - .107)

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

16. Other Employee Benefits
17. Construction and Other Significant Commitments
18. Claims and Judgments (GASB Cod. Sec. C50.115 & .144)
19. Accounts Payable (GASB Cod. Sec. 2300.125)
20. Lease Obligations (capital, operating & direct financing) (GASB Cod. Sec. L20.127 & .128, .140, .153, .154, .170, .171 & 185))
21. Short-term Debt and Liquidity (including borrowing during the year – GASB Cod. Sec. 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)
(b) Amortization of discounts/premiums and issuance costs
(c) Terms of interest rate changes of variable-rate debt (GASB Cod. Sec. 1500.129)
(d) Bonds authorized but unissued
(e) Synopsis of revenue bond covenants
(f) Special assessment debt and related activities (GASB Cod. Sec. S40.126 - .127)
(g) Debt refundings and extinguishments (GASB Cod. Sec. D20.101 - .118)
(h) Demand bonds (GASB Cod. Sec. D30.111)
(i) Bond, tax, and revenue anticipation notes (GASB Cod. Sec. B50)
(j) Interest expense included in direct expenses on Statement of Revenues, Expenses and Changes in Net Position(GASB Cod. Sec. 2200.134)
23. Future Revenues that are Pledged or Sold to directly secure or collateralize debt (GASB Cod. 2300.128 & .129 ; S20.118 & .119)
24. Unemployment Compensation (GASB Cod. U-50.101)
25. Landfill Closure and Postclosure Care Costs (GASB Cod. Sec. L10.115 - .116 & .902)
26. Pollution Remediation (GASB Cod. Sec. P40 113-124)
27. Conduit Debt Obligations (GASB Cod. Sec. C65.102)
28. Risk Management Activities (GASB Cod. Sec. C50.115; .144 & .145, .161; .164; P20.148)
29. Interfund Receivables and Payables and interfund eliminations
a. Due To/From Other Funds (GASB Cod. Sec. 2300.126)
b. Transfers In/Out (GASB Cod. Sec. 2300.127)
30. On-Behalf Payments for Fringe Benefits and Salaries (GASB Cod. Sec. N50.134)
31. Unusual or Infrequent Significant Transactions not within Control of Management (GASB Cod. Sec. 2200.141 & .143)

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

32. Restricted Net Position imposed by enabling legislation. (GASB Statement No. 63)
33. Donor-restricted Endowment (GASB Cod. Sec. 2300.123)
34. Segment Information (GASB Cod. Sec. 2500)
35. Joint Ventures/Jointly Governed Organizations (GASB Cod. Sec. J50.109 & .110)
36. Related Parties (GASB Cod. Sec. 2300.107)
37. Related Organizations (GASB Cod. Sec. 2600.127)
38. Summary of Significant Contingencies (GASB Cod. Sec. 1500.125 & Sec. C50.115)
39. Significant Effects of Subsequent Events (GASB Cod. Sec. 2300.106 & C50.149 and 2250.109 - .116)
40. Deficit Cash Balances
41. Restatements (GASB Cod. Section 2200.121-.125)
42. Substantial Doubts About Going Concerns (GASB Cod. 2250.120)
43. Nonexchange Transactions (GASB Cod. Sec. N50.108)
44. Required Disclosures about bankruptcies (See GASB Cod. Sec. BN5, para. .114)
45. Deferred Inflows and Outflows (GASB Cod. 2300.130 - .131)
46. Service Concession Arrangements (GASB Cod. Section S30.112-.114)
47. Nonexchange Financial Guarantees (GASB Cod. Section N30)
48. Tax abatement (GASB Cod. Secs. 2300.107 and T10.105 - .108)
49. Asset Retirement Obligations (GASB Cod. Secs. A-10.124 - .126)

REQUIRED SUPPLEMENTARY INFORMATION

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

	2015
Total pension liability	
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)
Net change in total pension liability	135,406.00
Total pension liability - beginning	2,853,455.00
Total pension liability - ending (a)	\$2,988,861.00
Plan fiduciary net position	
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
Net change in plan fiduciary net position	184,519.00
Plan fiduciary net positions - beginning	2,052,589.00
Plan fiduciary net positions - ending (b)	\$ 2,237,108.00
County's net pension liability - ending (a) - (b)	\$ 751,753.00
Plan fiduciary net position as a percentage of the total pension liability	74.85%
Covered-employee payroll *	449,293.00
County's net pension liability as a percentage of covered-employee payroll	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 COUNTY CONTRIBUTIONS
 Last 10 fiscal Years*
 (Dollar amounts in thousands)

	2015
Actuarially determined contribution	\$ 79,713.00
Contributions in relation to the actuarially determined contribution	79,713.00
Contribution deficiency (excess)	\$ -
Covered-employee 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, two years prior to the end of the fiscal year in which contributions are reported. Contributions for fiscal year 2015 were based on the September 30, 2012 actuarial valuation

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percent closed
Remaining amortization period	27 years
Asset valuation method	Five year smoothed market
Inflation	3%
Salary increases	3.75 - 7.25%, including inflation
Investment rate of return inflation	8%, 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.

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					<u>3,855.72</u>
Total Revenues	\$ 746,728.46	\$752,734.84	\$ 179,300.00	\$ 115,595.53	\$73,855.72

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
<u>Total Expenses</u>	<u>\$ 362,947.36</u>	<u>\$ 1,253,476.64</u>	<u>\$ 1,616,424.00</u>

**Mental Health
Board, Inc.**

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U. S. Department of Health & Human Services Passed Through the Alabama Department of Mental Health</u>				
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, CFDA 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 includes the federal grant activity of the _____ Mental Health Board and is presented on the modified accrual basis of accounting. 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 assets or cash flows of (*Name of Entity*).

Note 2 – Summary of Significant Accounting Policies¹⁰

Expenditures reported on the Schedule are reported on the (*identify the basis of accounting*) basis of accounting. Such expenditures are recognized following. Such expenditures are recognized following the cost principles contained in the Uniform Guidance¹¹ 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. The (*Name of Entity*) has elected to use the 10-percent de minimis indirect cost rate¹² as allowed in the Uniform Guidance.

Note 3 - Other¹³

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

¹⁰ This section is required under the *Uniform Guidance*. Paragraph 17.23 of the AICPA's *Government Auditing Standards and Single Audit Guide*, dated February 1, 2015, indicates that the auditor's opinion on the Schedule of Expenditures of Federal Awards may be affected when information that is required to be included in the Schedule is not included.

¹¹ If the Schedule of Expenditures of Federal Awards also includes federal expenditures that are subject to pre-Uniform Guidance requirements, then this sentence should be modified. {See paragraph 17.42 of the AICPA's *Government Auditing Standards and Single Audit Guide*, dated February 1, 2015.}

¹² This information must be disclosed.

¹³ The *Uniform Guidance* requires that the amounts provided to subrecipients, the total federal awards expended for loan or loan guarantee programs and noncash awards to be included only on the face of the Schedule of Expenditures of Federal Awards. This information was allowed to be included either in the Schedule of Expenditures of Federal Awards, or in the Notes to the Schedule under OMB Circular A-133; however, this flexibility is not allowed under the *Uniform Guidance*.

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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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10/04

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 _____'s basic financial statements and have issued our report thereon dated _____, 20X1.¹⁴

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered _____'s internal control over financial reporting (internal control) to determine the 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 _____'s internal control. Accordingly, we do not express an opinion on the effectiveness of _____'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.

¹⁴ 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 on 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 weakness 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 may exist that have not been identified.

Compliance and Other Matters¹⁵

As part of obtaining reasonable assurance about whether _____'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 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*.

Purpose of this Report

This 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 V-6. 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 V-2. Example 3 should be used when there are material weaknesses, significant deficiencies and reportable instances of noncompliance or other matters.

¹⁵ **Other Matters** are certain findings of fraud or abuse. A per industry practice, the reference to "other matters" in the heading and following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

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 _____'s basic financial statements and have issued our report thereon dated _____, 20__.¹⁶

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered _____'s internal control over financial reporting (internal control) to determine the 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.

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

¹⁶ 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify 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] that we consider to be significant deficiencies **[List the reference numbers of the related findings, for example, 20X1-001, 20X1-003, and 20X1-004]**.

Compliance and Other Matters¹⁷

As part of obtaining reasonable assurance about whether _____'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 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 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]**.¹⁸

_____ Entity's Response to Findings

_____ 's response to the findings identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan _____ 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 purpose.

John Doe
XYZ Audit Firm

¹⁷ **Other Matters** are certain findings of fraud or abuse. This heading and the reference to "other matters" in the following paragraph should appear in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

¹⁸ 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.

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 American 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__.¹⁹

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered _____' internal control over financial reporting (internal control) to determine the 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 _____'s internal control. Accordingly, we do not express an opinion on the effectiveness of _____' internal control.

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant may exist that were not 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 to be material weaknesses. [*List related finding reference*

¹⁹ 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.)

numbers, for example, 2010-001, 2010-004 and 2010-008].²⁰

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 to be significant deficiencies. *[List related finding reference numbers, for example, 2010-001, 2010-004 and 2010-008].*

Compliance and Other Matters^{21,5}

As part of obtaining reasonable assurance about whether _____'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 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 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

_____’s response to the findings identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan. _____’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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

²⁰ 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.

²¹ **Other Matters** are certain findings of fraud or abuse. This heading and the reference to “other matters” in the following paragraph should appear in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.²²

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.

²² 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 REQUIRED BY THE *UNIFORM GUIDANCE*²³

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with each of _____'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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)*. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about _____'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

²³ 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.

(Name of)

57

(Auditee)

10/16

Opinion on Each Major Federal Program

In our opinion, _____ complied, in all material respects, with the types of 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__.

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 program is not modified with respect to these matters.

_____’s response to the noncompliance findings identified in our audit is 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**]. _____’s response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of _____ is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered _____’s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of _____’s 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

(Name of)

58

(Auditee)

10/16

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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.²⁴

John Doe
XYZ Audit Firm

Montgomery, Alabama

Date - (Auditor's Report Date)

²⁴ There may be circumstances when the auditor 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.

(Name of)

59

(Auditee)

10/16

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.

(Name of)

60

(Auditee)

10/16

Example 5

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL REQUIRED BY THE *UNIFORM GUIDANCE*²⁵

Independent Auditor's Report

[Appropriate Addressee]

Report on Compliance for Each Major Federal Program

We have audited _____'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of _____'s major federal programs for the year ended September 30, 20__.

_____’s major federal programs are identified in the Summary of Examiner’s Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance with each of _____’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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)*. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about _____’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major

²⁵ 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.

(Name of)

61

(Auditee)

10/16

federal program. However, our audit does not provide a legal determination of _____'s compliance.

Opinion on Each Major Federal Program

In our opinion, _____ complied, in all material respects, with the types of 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__.

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 program is not modified with respect to these matters.

_____’s response to the noncompliance findings identified in our audit is 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*]. _____’s response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of _____ is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered _____’s internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of _____’s 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.²⁶

Joe 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 additional example reports that may apply to their specific situation.

²⁶ 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.

(Name of)

63

(Auditee)

10/16

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I - Summary of Auditor's Results

Financial Statements

Type of opinion issued:²⁷ [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 programs:²⁸ [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 programs:²⁹

²⁷ 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.

²⁸ 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."

²⁹ Major programs should generally be identified in the same order as reported on the Schedule of Expenditures of Federal Awards.

 (Name of)

 (Auditee)

CFDA Number(s)³⁰

Name of Federal Program or Cluster³¹

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)³²

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2013-001 ³³	Compliance	Finding: 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. Recommendation:	\$321,379

³⁰ When the CFDA number is not available, include other identifying number, if applicable.

³¹ 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.

³² See the Uniform Guidance under Schedule of Findings and Questioned Costs, Financial Statement Findings (GAGAS) for elements to be included for each audit finding.

³³ 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).

(Name of)

65

(Auditee)

File: MENTAL HEALTH CENTERS AUDIT GUIDE

2018

10/16

		<p>The _____ should require that invoices be cancelled upon payment and only original invoices be used for vendor payments.</p> <p>Views of Responsible Officials of the Auditee: (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]</p>	
2003-003	Compliance		
2003-004	Internal Control	<p>Finding: 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>Recommendation: 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>Views of Responsible Officials of the Auditee: (See note at Finding 2003-001)</p>	
2003-005	Internal Control		
2003-006	Internal Control		

(Name of)

(Auditee)

Section III - Federal Awards Findings and Questioned Costs³⁴

Ref. No.	CFDA 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><u>Finding:</u> 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><u>Recommendation:</u> The Director of the Child Nutrition Program should maintain timesheets reflecting the allocation of time worked on federal and non-federal programs.</p> <p><u>Views of Responsible Officials of the Auditee:</u> (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	<p><u>Finding:</u> 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><u>Recommendation:</u></p>	

³⁴ 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. Auditors should specifically identify ARRA Programs that are included in the Audit Findings (See Appendix 7, OMB Compliance Supplement for this requirement).

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 13.44 of the *Government Auditing Standards and Single Audit Guide* (April 2016) 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.

(Name of)

67

(Auditee)

File: MENTAL HEALTH CENTERS AUDIT GUIDE

2018

10/16

		Community Affairs, Community Development Block Grants/States Program Contract No. XXXX for 10/1/0X through 9/30/0X	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. <u>Views of Responsible Officials of the Auditee:</u> (See note at Finding 2003-001)	
2003- 009				

(Name of)

68

(Auditee)

File: MENTAL HEALTH CENTERS AUDIT GUIDE

2018

10/16

**REPORT ON COMPLIANCE WITH DEPARTMENT OF
MENTAL HEALTH CONTRACT³⁵**

(When the auditor's procedures disclose no 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), 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.

Name of Firm

(Date)

³⁵ 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 ³⁶	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

Corrective Action Plan

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(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

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

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 Sections 22-51-1 through 22-51-14 of the Code of Alabama.

The incorporation of regional mental health programs and facilities (mental health centers) are provided for in Sections 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 Section 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). Section 22-51-11 of the Code of Alabama 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). Section 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 Title 10a, Chapter 20, Article 16 of the Code of Alabama.

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 Sections 41-14A-1 through 41-14A-14 of the Code of Alabama 1975. 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 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.

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 Sections 36-25A-3 and 36-25A-7, respectively.

Attorney Generals' Opinions

Attorney General Opinions referenced below relate to public corporations organized under Section 22-51-1 et seq., (No. 310 1967 Ala. Acts 853 (1967)) 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. Hon. Jack D. Boozer, Chairman, Calhoun County Commission, 5/24/79, AG# 1979-206.

- 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. Hon. O. D. Alsobrook, Probate Judge, Chambers County, 10/19/79, AG# 1980-025.
- 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. Hon. R. G. Britton, Commissioner, State Board of Corrections, 8/6/80, AG# 1980-492.
- A regional mental health board may implement a **deferred compensation plan** for its employees. Hons. William D. Boyd and Allen R. Goodwin, Mental Health Retardation Board, Bibb, Pickens, and Tuscaloosa Counties, Inc., 3/3/82, AG# 1982-225.
- Corporations providing mental health services are not exempt from the **utilities gross receipt tax** levied pursuant to Section 40-21-80 et seq. Hon. Glenn Ireland, II, Commissioner, Department of Mental Health, 3/24/82, AG# 1982-262.
- 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. Hon. David A. Harvey, Executive Director, Calhoun-Cleburne Mental Health Board, Inc., 4/29/82, AG# 1982-310.
- 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. Hon. Alan R. Goodwin, Executive Director, Indian Rivers, 7/13/1982, AG# 1982-442.
- 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. Hon. Stephen H. Scott, Executive Director, Baldwin County Mental Health Center, 3/7/83, AG# 1983-217.
- 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. Hon. Henry K. Stough, Executive Director, Montgomery Mental Health Authority, 7/5/83, AG# 1983-377.

- "310 Boards" cannot establish a **quorum** requirement greater than three members for the transaction of business by the board of directors. Hon. Ken Wallis, Receiver and Acting Commissioner, Department of Mental Health, 8/18/83, AG# 1983-444.

- 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. Hon. Warrine Jones, President, Mental Health Retardation Center at Opelika Alabama, 9/1/83, AG# 1983-457.

- 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. Hon. Carol Duncan, Executive Secretary, Northwest Alabama Mental Health Center, 12/5/83, AG# 1984-088.

- 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. Hon. Jerry A. Lovett, Executive Director, Northwest Alabama Mental Health Center, 1/30/84, AG# 1984-142.

- The Cahaba Regional Mental Health/Mental Retardation Center Board of Directors desired to adopt two new policies in regard to **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). Hon. Patricia J. Martin, Executive Director, Cahaba Regional Mental Health/Mental Retardation Center, 5/24/84, AG# 1984-289.

- 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. Hon. James Stivers, Executive Director, Community Mental Health Center, 10/10/84, AG# 1985-018.

- 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. Hon. Sid Holcomb, President, DeKalb Commission, 5/20/87, AG# 1987-178.

- 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. Hon. Bobbye Phillips, President, North Alabama Regional Mental Health Authority, 5/20/87, AG# 1987-181.

- 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. Sen. Mac Parsons, 8/22/89, AG# 1989-399, dated August 22, 1989.

- Speech pathologists and audiologists** employed by a mental health center are not exempt from licensure under Section 34-28A-3(4) of the Code. Hon. Randolph Reaves, 1/23/90, AG# 1990-114.

- 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. Hon. Patrick H. Tate, Attorney, DeKalb County Retardation Board AG# 1997-165.

- 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. Hon. James E. Turnback, Attorney, Etowah County Commission, 9/19/97, AG# 1997-284.

- 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

Section 22-52-7(c) of the Code. Hon. Henry K. Stough, Executive Director, Montgomery Area Mental Health Authority, 12/16/98, AG# 1999-063.

•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. Hon. H. A. Lloyd, Attorney, West Alabama Mental Health Board, 12/11/01, AG# 2002-091.

- 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. Hon. Kathy E. Sawyer, Commissioner, Department of Mental Health and Mental Retardation, 7/17/02, AG# 2002-285.

•The West Alabama Mental Health Board is a **public corporation** subject to the Competitive Bid Law and the Public Works Law. Hon. H. A. Lloyd, Attorney, West Alabama Mental Health Board, 10/30/02, AG# 2003-017.

- 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, section 9-15-70, et seq., of the Code of Alabama is applicable and bidding is required. Hon. Kathy E. Sawyer, Commissioner, Department of Mental Health and Mental Retardation, 7/30/03, AG# 2003-205.

•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. Hon. Christie D. Knowles, Attorney, Northeast Alabama Mentally Retardation/Developmentally Disabled Authority, 1/31/05, AG# 2005-060.

•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**. Hon. Jesse A. Keller, Attorney, Riverbend Center for Mental Health, 10/4/05, AG# 2006-004.

•“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. Hon. Barbara Friedman, President, Board of Mental Health/Mental Retardation Board of Bibb, Tuscaloosa, & Pickens Counties, 7/10/06, AG# 2006-117.

- 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 section 40-9-23 of the Code of Alabama, regardless of the number of patients treated by such facility. Hon. Andrew Bennett, Assistant Tax Assessor, Jefferson County, Bessemer Division, 12/14/11, AG# 2012-021.

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*³⁷

*AICPA Codification of Statements on Auditing Standards*³⁸

Single Audits

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

Uniform Administrative Requirements and Cost Principles for Audits of Federal Awards (“Uniform Guidance”)³⁹

Government Auditing Standards issued by the Comptroller General of the United States (“Yellow Book”)⁴⁰

³⁷ This document may be obtained from the American Institute of Certified Public Accountants, via the internet at <http://www.aicpa.org>

³⁸ See footnote 36.

³⁹ 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.

⁴⁰ See footnote 38.