

Mental Health and Recovery Board of Erie and Ottawa Counties

Financial Condition

As of

December 31, 2006

Together with Auditor's Report



Mary Taylor, CPA

Auditor of State

Members of the Board
Mental Health and Recovery Board of Erie and Ottawa Counties
416 Columbus Avenue
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Mental Health and Recovery Board of Erie and Ottawa Counties is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

July 17, 2007

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MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES

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Independent Auditor's Report

Board of Mental Health and Recovery Board of Erie and Ottawa Counties
Erie County, Ohio

I have audited the accompanying financial statements of Mental Health and Recovery Board of Erie and Ottawa Counties as December 31, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

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

As described more fully in Note 1, the Mental Health and Recovery Board of Erie and Ottawa Counties prepares its financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America. Although I cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, I presume they are material.

Revisions to GAAP would require the Mental Health and Recovery Board of Erie and Ottawa Counties to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2006. Instead of the combined funds the accompanying financial statements present for 2006, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2006. While the Mental Health and Recovery Board of Erie and Ottawa Counties does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Mental Health and Recovery Board of Erie and Ottawa Counties has elected not to reformat its statements. Since the Mental Health and Recovery Board of Erie and Ottawa Counties does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. My opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Board as of December 31, 2006, or its changes in financial position for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2006, and its combined cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Mental Health and Recovery Board of Erie and Ottawa Counties to include Management's Discussion and Analysis for the year ended December 31, 2006. The Mental Health and Recovery Board of Erie and Ottawa Counties has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with Government Auditing Standards, I have also issued a report dated May 31, 2007 on my consideration of Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of my testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of my audit.

Kevin L. Penn, Inc.

May 31, 2007

Mental Health and Recovery Board of Erie and Ottawa Counties

Erie County

Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances

All Governmental Fund Types

For the Year Ended December 31, 2006

| | Governmental Fund Types | | Totals |
|--|-------------------------|-----------------|-------------------|
| | General | Special Revenue | (Memorandum Only) |
| Cash Receipts: | | | |
| Local Taxes | \$ 2,258,010 | | \$ 2,258,010 |
| Intergovernmental | 5,535,726 | \$ 738,758 | 6,274,484 |
| Other Revenue | 77,021 | 582 | 77,603 |
| Total Cash Receipts | 7,870,757 | 739,340 | 8,610,097 |
| Cash Disbursements: | | | |
| Current: | | | |
| Salaries | 445,833 | | 445,833 |
| Supplies | 9,827 | | 9,827 |
| Equipment | 350 | | 350 |
| Contracts - Repair | 1,254 | | 1,254 |
| Contracts - Services | 7,300,126 | 715,217 | 8,015,343 |
| Rentals | 14,322 | | 14,322 |
| Advertising and Printing | 54,954 | | 54,954 |
| Travel | 19,060 | | 19,060 |
| Public Employee's Retirement | 50,488 | | 50,488 |
| Worker's Compensation | 1,726 | | 1,726 |
| Other | 40,508 | | 40,508 |
| Debt Service | 12,188 | | 12,188 |
| Total Cash Disbursements | 7,950,636 | 715,217 | 8,665,853 |
| Total Receipts Over/(Under) Disbursements | (79,879) | 24,123 | (55,756) |
| Fund Cash Balance - January 1, 2006 | 2,160,112 | 94,813 | 2,254,925 |
| Fund Cash Balance - December 31, 2006 | \$ 2,080,233 | \$ 118,936 | \$ 2,199,169 |
| Reserves for Encumbrances, December 31, 2006 | \$ - | \$ - | \$ - |

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

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Mental Health and Recovery Board of Erie and Ottawa Counties, (the Board) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Board is directed by an eighteen member board. Seven members of the Board are appointed by the Board of the Erie County Commissioners, three members and appointed by the Board of the Ottawa County Commissioners, four members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, and four members are appointed by the Ohio Department of Mental Health. The Board provides alcohol, drug addiction and mental health services and programs to citizens of Erie and Ottawa Counties. These services are provided primarily through contracts with private and public agencies.

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

B. BASIS OF ACCOUNTING:

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. CASH:

As required by Ohio Revised Code, the Erie County Treasurer is custodian for the Board's cash. The Board's cash is held in the Erie County's cash and investment pool, and are valued at the Erie County Treasurer's carry amount.

D. FUND ACCOUNTING:

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

Governmental Fund Types:

General Fund. This fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. **FUND ACCOUNTING** (continued)

Special Revenue Funds. These funds are used to account for the proceeds of specific sources (other than from trusts or for capital projects) that are legally restricted to expenditure for specified purposes. The Board has the following significant Special Revenue Funds:

- Teen Institute Block Grant Fund – This fund accounts for grant monies received to provide assistance to underprivileged teenagers.

Fiduciary Fund (Agency Fund). This fund is used to account for funds for which the Board is acting in an agency capacity. The Board has the following Fiduciary Fund:

- Family and Children First Funds – This fund accounts for the receipts and disbursements of the Family and Children First Council for which the Board acts as fiscal agent.

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

APPROPRIATIONS

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

ESTIMATED RESOURCES

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

ENCUMBRANCES

The Ohio Revised Code requires the Board to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of the 2006 budgetary activity appears in Note 2.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
 ERIE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. **PROPERTY, PLANT AND EQUIPMENT**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. **UNPAID VACATION AND SICK LEAVE**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Board's basis of accounting.

H. **TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Amounts in the "Totals (Memorandum Only)" columns of the financial statements represent a summation of the financial statements line items of the fund types and account groups. These amounts are presented for analytical purposes only. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

NOTE 2 – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2006 follows:

| <u>Fund Type:</u> | <u>Budgeted Receipts</u> | <u>Actual Receipts</u> | <u>Variance</u> |
|-------------------|------------------------------|----------------------------|-------------------|
| General | \$ 8,866,705 | \$ 7,870,757 | \$ 995,948 |
| Special Revenue | - | 739,340 | \$ (739,340) |
| Total | <u>\$ 8,866,705</u> | <u>\$ 8,610,097</u> | <u>\$ 256,608</u> |

| <u>Fund Type:</u> | <u>Appropriation Authority</u> | <u>Budgetary Expenditures</u> | <u>Variance</u> |
|-------------------|------------------------------------|-----------------------------------|-------------------|
| General | \$ 8,768,801 | \$ 7,950,636 | \$ 818,165 |
| Special Revenue | 49,000 | 715,217 | \$ (666,217) |
| Total | <u>\$ 8,817,801</u> | <u>\$ 8,665,853</u> | <u>\$ 151,948</u> |

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
 ERIE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2006

NOTE 3 - PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31.

The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Board.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

NOTE 4 – DEBT

A commercial loan was originally obtained in 1998 to finance the purchase of the property used by the Board for its administrative offices. The loan was in the amount of \$135,000; had an interest rate of 8.15%; required monthly payments of \$1,152 through April 2003; and a final estimated payment of \$118,750 due May 2003. The Board had the option of either paying the lump sum balance due at that time, or refinancing this amount. On June 17, 2003, the Board refinanced the loan. The new promissory note was in the amount of \$118,368, with an interest rate 6.17%, requiring 59 monthly payments of \$1,015 through May 2008, and a final payment estimated at \$95,764 due July 2008. The outstanding principal at December 31, 2006 was \$98,907.

The aggregate amounts of long-term debt maturities for the three years following 2005 are as follows:

| Year | Principal | Interest | Total |
|-------|------------------|-----------------|------------------|
| 2007 | \$ 6,081 | \$ 6,107 | \$ 12,188 |
| 2008 | <u>\$ 92,826</u> | <u>\$ 2,865</u> | <u>\$ 95,764</u> |
| Total | <u>\$ 98,907</u> | <u>\$ 8,972</u> | <u>\$107,952</u> |

NOTE 5 - PENSION PLAN

Ohio Public Employees Retirement System

All Board full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 5: PENSION PLAN (continued)

- The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings;
- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Ohio Public Employees Retirement System

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Board to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory Board for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Board was 13.55 percent of covered payroll. The Board's required contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$50,488, \$51,561 and \$49,635, respectively.

NOTE 6: POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory Board for employer contributions. The 2006 employer contribution rate was 13.55 percent of covered payroll, 4 percent was the portion that was used to fund health care for 2006.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6: POST-EMPLOYMENT BENEFITS (continued)

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

Ohio Public Employees Retirement System

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 376,109. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 7 – RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

NOTE 8 - CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any would not be material.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 9 - Correction of an Error

The beginning cash fund balances for the Agency Fund has been restated as the result of a correction of an error, relating to an unrecorded journal entry.

| | <u>Agency Fund</u> |
|--|------------------------|
| Cash Fund Balance as Previously Stated | (\$ 15) |
| Correction of an Error | <u>15</u> |
| Cash Fund Balance as Restated | <u><u>\$ 0</u></u> |

Mental Health and Recovery Board of Erie and Ottawa Counties

Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2006

| Federal Grantor Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|---|----------------------------------|---------------------------|----------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Passed Through Ohio Department of Alcohol and Drug Addiction Services: | | | |
| Safe and Drug Free Schools and Communities State Grant | 22-06662-00-DFSCA-P-06-9069 | 84.186A | \$ 28,855 |
| | 22-06662-00-DFSCA-P-07-9069 | | <u>10,315</u> |
| Total Safe and Drug Free Schools and Communities State Grant | | | 39,170 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed Through Ohio Department of Mental Health: | | | |
| Medical Assistance Program | ODMH-05 | 93.778 | 7,263 |
| | ODMH-06 | | 1,236,102 |
| | ODMH-07 | | <u>333,017</u> |
| | | | 1,576,382 |
| Passed Through Ohio Department of Alcohol and Drug Addiction Services: | | | |
| Medical Assistance Program | ODADAS-05 | 93.778 | 48,469 |
| | ODADAS-06 | | 276,572 |
| | ODADAS-07 | | <u>19,902</u> |
| | | | <u>344,943</u> |
| Total Medical Assistance Program | | | <u>1,921,325</u> |
| SIG - Evidence Based Planning | 22-00416-SIG-P-06-0417 | 93.243 | 61,463 |
| | 22-00416-SIG-P-07-0417 | | <u>4,076</u> |
| Total SIG – Evidence Based Planning | | | 65,539 |
| Social Service Block Grant | MH-15-06 | 93.667 | 36,519 |
| | MH-15-07 | | <u>19,197</u> |
| Total Social Service Block Grant | | | <u>55,716</u> |
| Block Grants for Community Mental Health Services | BG-06 | 93.958 | 36,875 |
| | BG-07 | | <u>39,574</u> |
| Total Block Grants for Community Mental Health Services | | | <u>76,449</u> |
| Block Grants for Prevention and Treatment of Substance Abuse | FY06-FA/DBG&F/IVBG | 93.959 | 278,776 |
| | FY07-FA/DBG&F/IVBG | | <u>124,631</u> |
| Total Block Grants for Prevention and Treatment of Substance Abuse | | | <u>403,407</u> |
| FAST \$ | 15-CS-06-01 | 93.556 | 52,333 |
| | 15-CS-07-01 | | <u>22,604</u> |
| Total FAST \$ | | | <u>74,937</u> |
| TOTAL FEDERAL AWARDS EXPENDITURES | | | <u><u>\$ 2,636,543</u></u> |

The accompanying notes to this schedule are an integral part of this schedule.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
ERIE COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Board's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – SUBRECIPIENTS

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services not-for-profit agencies (subrecipients). As described in Note A, the Board records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the Board is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved.

NOTE C – MATCHING REQUIREMENTS

Certain Federal programs require that the Board contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Board has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Board of Mental Health and Recovery Board of Erie and Ottawa Counties
Erie County, Ohio

I have audited the financial statements of Mental Health and Recovery Board of Erie and Ottawa Counties as of and for the year ended December 31, 2006, and have issued my report thereon dated May 31, 2007, wherein I noted the Mental Health and Recovery Board of Erie and Ottawa Counties follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America.. Except as discussed in the preceding sentence, I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be significant deficiencies. Significant deficiencies involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Mental Health and Recovery Board of Erie and Ottawa Counties's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as 2006-1 and 2006-2. I also noted certain additional matters that I reported to management of Mental Health and Recovery Board of Erie and Ottawa Counties's in a separate letter dated May 31, 2007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above, is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mental Health and Recovery Board of Erie and Ottawa Counties's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and questioned costs as items 2006-1 and 2006-2. I also noted certain additional matters that I reported to management of Mental Health and Recovery Board of Erie and Ottawa Counties's in a separate letter dated May 31, 2007.

This report is intended solely for the information and use of management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

May 31, 2007



Certified Public Accountant
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Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Mental Health and Recovery Board of Erie and Ottawa Counties
Erie County, Ohio

Compliance

I have audited the compliance of Mental Health and Recovery Board of Erie and Ottawa Counties with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. Mental Health and Recovery Board of Erie and Ottawa Counties's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mental Health and Recovery Board of Erie and Ottawa Counties's management. My responsibility is to express an opinion on Mental Health and Recovery Board of Erie and Ottawa Counties's compliance based on my audit.

I conducted my 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Mental Health and Recovery Board of Erie and Ottawa Counties's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Mental Health and Recovery Board of Erie and Ottawa Counties's compliance with those requirements.

In my opinion, Mental Health and Recovery Board of Erie and Ottawa Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of Mental Health and Recovery Board of Erie and Ottawa Counties is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Mental Health and Recovery Board of Erie and Ottawa Counties's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the management, and the Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

May 31, 2007

Mental Health and Recovery Board of Erie and Ottawa Counties

Schedule of Findings and Questioned Costs

December 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified
not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified
not considered to be material weaknesses? No

Type of auditor's report issued on compliance
for major program: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? No

Identification of major programs:

93.778 Medical Assistance Program.
93.959 Prevention and Treatment of
Substantive Abuse

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000 (Type A)

Auditee qualified as low-risk auditee? Yes

Mental Health and Recovery Board of Erie and Ottawa Counties

Schedule of Findings and Questioned Costs

June 30, 2006

Section II - Findings related to the financial statements required to be reported in accordance with GAGAS.

2006-1

Appropriations exceeding Estimated Resources

Condition:

Appropriations exceeded estimated resources as follows:

| <u>Fund</u> | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Variance</u> |
|----------------------|----------------------------|-----------------------|-----------------|
| Special Revenue Fund | \$ -0- | \$ 49,000 | \$ 49,000 |

Criteria:

Ohio Rev. Code Section 5705.39 provides that total appropriations from each fund shall not exceed total estimated fund resources from each fund. No appropriation measure shall become effective until the county fiscal officer files a certificate that the total appropriations for each fund do not exceed the total official estimate or amended official estimate.

Effect:

Appropriations exceeded estimated resources by \$49,000.

Cause:

Oversight by management.

Recommendation:

I recommend that the Mental Health and Recovery Board of Erie and Ottawa Counties's, comply with Ohio Revised Code Section 5705.39, which provides that total appropriations from each fund shall not exceed total estimated fund resources from each fund.

2006-2

Budgetary Expenditures exceeding Appropriations

Condition:

During the 2006 calendar year, budgetary expenditures exceeded appropriations in the amount of \$666,217 in the Special Revenue fund.

Criteria:

Ohio Revised Code § 5705.41(8) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

Mental Health and Recovery Board of Erie and Ottawa Counties
Schedule of Findings and Questioned Costs
June 30, 2006

2006-2

Budgetary Expenditures exceeding Appropriations (continued)

Effect:

Budgetary expenditures exceeded appropriations by \$666,217.

Cause:

Oversight by management.

Recommendation:

I recommend that the Mental Health and Recovery Board of Erie and Ottawa Counties's comply with Ohio Revised Code § 5705.41(8) which states that no subdivision or taxing unit is to expend money unless it has been appropriated. In addition, periodically compare expenditures and encumbrances to appropriations to determine if a modification to appropriations is necessary. Furthermore, failure to limit expenditures to appropriated amounts may result in the Mental Health and Recovery Board of Erie and Ottawa Counties expending funds in excess of available resources.

Section III - Findings and Questioned costs for federal awards.

None

Mental Health and Recovery Board of Erie and Ottawa Counties
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2006

There were no audit findings, during the 2005 calendar year.

MENTAL HEALTH AND RECOVERY BOARD
of Erie & Ottawa Counties

Kenneth M. Baughman, Chair
Board of Trustees



Kirk W. Halliday, Ph.D.
Executive Director

CORRECTIVE ACTION PLAN

December 31, 2006

Oversight Agency for Audit: Department of Health and Human Services

Mental Health and Recovery Board of Erie and Ottawa Counties's , respectfully submits the following corrective action plan for the year ended December 31, 2006.

Name and address of independent public accounting firm: Kevin L. Penn. Inc. 11811 Shaker Blvd. Suite 421. Cleveland. Ohio 44120.

Audit Period: December 31, 2006.

The findings from the December 31, 2006 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2006-1

Recommendation:

I recommend that the Mental Health and Recovery Board of Erie and Ottawa Counties's, comply with Ohio Revised Code Section 5705.39, which provides that total appropriations from each fund shall not exceed total estimated fund resources from each fund.

2006-2

Recommendation:

I recommend that the Mental Health and Recovery Board of Erie and Ottawa Counties's comply with Ohio Revised Code § 5705.41(8) which states that no subdivision or taxing unit is to expend money unless it has been appropriated. In addition, periodically compare expenditures and encumbrances to appropriations to determine if a modification to appropriations is necessary. Furthermore, failure to limit expenditures to appropriated amounts may result in the Mental Health and Recovery Board of Erie and Ottawa Counties expending funds in excess of available resources.

Auditee's Response:

I agree with the auditor's assessment that total appropriations from each fund shall not exceed total estimated fund resources (ORC 5705.39) and also that no subdivision is to expend money unless it has been appropriated (ORC 5705.41(8)). The following is a synopsis of what transpired to cause this situation:

After sending the calendar year budget to the County auditor on the prescribed form we receive an Official Certificate of Estimated Resources. It was on this form that the Special Revenue funds were omitted. After looking into this, I found that form was filled out incorrectly in all previous years, except for CY 2005. This paper certificate is not linked in anyway to our computerized budgeted numbers. This of course, is a problem. Even though I am monitoring the funds throughout the year, and they are entered into the computer system correctly, because the Official Certificate of Estimated Resources was done incorrectly, it appears that I have no money appropriated for Special Revenue.

What I propose to do from this year forward is to send my budgeted calendar year revenues to the county auditor broken out using the terminology on the Official Certificate of Estimated Resources (i.e. Mental Health Recovery General Fund and Special Revenue Funds). When this form is received back from the county auditor I will immediately verify that the numbers are correct and in the appropriate fund. Even though this is not the ideal solution, it is the one that can work within the confines of the county management information system.

If there any questions regarding this plan, please call Beth William, Business Manager at (419) 627-1908.

Sincerely



Beth William, Business Manager



Mary Taylor, CPA
Auditor of State

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

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 31, 2007**