

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

**SINGLE AUDIT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2011**

Varney, Fink & Associates, Inc.  
Certified Public Accountants





# Dave Yost • Auditor of State

Board of Trustees  
Mental Health and Recovery Board of Erie and Ottawa Counties  
416 Columbus Ave  
Sandusky, Ohio 44870

We have reviewed the *Independent Accountants' Report* of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2011 through December 31, 2011. 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 Accountants' 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 Accountants' 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 black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 1, 2012

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

FOR THE YEAR ENDED  
DECEMBER 31, 2011

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**INDEPENDENT ACCOUNTANTS' REPORT**

Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, OH 44870

To the Board of Trustees:

We have audited the accompanying financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties (the Board) as of and for the year ended December 31, 2011. These financial statements are the responsibility of the Board's management. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1B, the Board has prepared these 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 (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Board's larger (i.e. major) funds separately. While the Board does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require certain governments to reformat their statements. The Board has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 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, 2011, or its changes in financial position for the year then ended.

## INDEPENDENT ACCOUNTANTS' REPORT (continued)

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2011, and its cash receipts and disbursements for the year then ended on the basis of accounting Note 1B describes.

As described in Note 1B, during 2011 the Board adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2012 on our consideration of the Board internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

We conducted our audit to opine on the financial statements that collectively comprise the Board's financial statements taken as a whole. The federal awards expenditure schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the financial statements. The federal awards expenditure schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Varney, Fink & Associates*

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

June 4, 2012



**Mental Health and Recovery Board of Erie and Ottawa Counties**  
**Statement of Receipts, Disbursements and Change in Fund Balance (Cash Basis)**  
**Mental Health and Recovery Fund**  
**For the Year Ended December 31, 2011**

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Cash Receipts:	
Local Taxes	\$3,725,594
Intergovernmental	6,292,796
Other Receipts	<u>157,758</u>
Total Cash Receipts	<u>10,176,148</u>
Cash Disbursements:	
Salaries and Benefits	408,657
Supplies	3,348
Equipment	553
Contracts - Repair	4,573
Contracts - Services	9,036,852
Rentals	9,808
Advertising and Printing	1,565
Travel	12,892
Public Employee's Retirement	47,842
Workers' Compensation	4,266
Other	71,397
Debt Service:	
Principal	12,865
Interest and Fiscal Charges	<u>12,770</u>
Total Cash Disbursements	<u>9,627,388</u>
Net Change in Fund Cash Balance	548,760
Fund Cash Balance, January 1	<u>2,109,766</u>
Unassigned	<u>2,658,526</u>
Fund Cash Balance - December 31	<u><u>\$2,658,526</u></u>

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

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MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**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. A seventeen member Board is the governing body. Eight members are appointed by the Board of the Erie County Commissioners, three members are appointed by the Board of the Ottawa County Commissioners, three members are appointed by the Ohio Department of Alcohol and Drug Addiction Services, and three 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. **DEPOSITS AND INVESTMENTS**

As required by the Ohio Revised Code, the Erie County Treasurer is custodian for the Board's deposits. The County's deposit and investment pool holds the Board's assets, valued at the Treasurer's reported carrying amount.

D. **FUND ACCOUNTING**

The Board uses a fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The fund of the Board is governmental.

Mental Health and Recovery Fund This fund accounts for property tax levies and federal and state grants that are primarily used to pay the costs of contracts with local mental health agencies that provide services to the public.

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund be budgeted annually.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

ESTIMATED RESOURCES - Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the following year.

A summary of the 2011 budgetary activity appears in Note 2.

F. FUND BALANCE

Fund Balance is divided into five classifications based primarily on the extent to which the Board must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable  
The Board classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.
2. Restricted  
Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
3. Committed  
Trustees can commit amounts via formal action (resolution). The Board must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.
4. Assigned  
Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as assigned unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by Board or a Board official delegated that authority by resolution, or by State Statute.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2011

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

5. Unassigned

Unassigned fund balances is the residual classification for the general fund and includes amounts not included in other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Board applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

H. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**NOTE 2 – BUDGETARY ACTIVITY**

Budgetary activity for the year ended December 31, 2011 was as follows:

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
Mental Health and Recovery Fund	\$9,161,268	\$10,176,148	\$1,014,880

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
Mental Health and Recovery Fund	\$10,524,350	\$9,627,388	\$896,962

**NOTE 3 - PROPERTY TAXES**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the state pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**NOTE 3- PROPERTY TAXES (Continued)**

Public utilities are also taxed on personal and real property located within the Board's district.

Tangible personal property tax has been phased out as of 2009. To compensate, the state will make distributions to taxing subdivisions from revenue generated by a newly enacted commercial activity tax. Generally, these distributions are expected to fully compensate taxing subdivisions for such losses through 2011 with gradual reductions in the reimbursement from 2011 through 2017.

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 original loan was for \$135,000. This original loan was refinanced in both 2003 and 2008. The current loan is for \$88,418, with an interest rate of 7.90%, requiring 59 payments of \$1,074 through April 2013, and a final estimated payment due May 2013 of \$53,994. The outstanding principal at December 31, 2011 was \$62,918.

Amortization of the above debt, including \$8,260 of interest, is as follows:

<u>Year</u>	<u>Total</u>
2012	\$12,888
2013	<u>58,290</u>
	<u>\$71,178</u>

A commercial loan was obtained in 2009 to finance the purchase of property used by the Board for the Beacon project. The current loan was for \$118,000, with an interest rate of 6.29%, requiring 35 payments of \$1,021 through July 2012, and a final estimated payment due August 2012 of \$103,560. The outstanding principal at December 31, 2011 was \$106,184.

Amortization of the above debt, including \$4,523 of interest, is as follows:

<u>Year</u>	<u>Total</u>
2012	<u>\$110,707</u>

**NOTE 5 – DEFINED BENEFIT PENSION PLANS**

Plan Description – The Board participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**NOTE 5 – DEFINED BENEFIT PENSION PLANS** (Continued)

member invests both member and employer contributions (employer contributions vest over five years at 20 percent each year). Under the member-directed plan members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans. Members in the state and local classifications may participate in all three plans. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. The Board's 2011 contribution rate was 14.0 percent of covered payroll.

The Board's required contributions for pension obligations for the years ended December 31, 2011, was \$47,842.

**NOTE 6 - POST-EMPLOYMENT BENEFITS**

Plan Description – OPERS maintains a cost-sharing multi-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B reimbursement, to qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten years or more of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not require, OPERS to provide OPEB benefits to eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011

**NOTE 6 - POST-EMPLOYMENT BENEFITS (Continued)**

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, local government employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio revised Code. Active members do not make contributions to the OPEB plan.

Each year, the retirement board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent during calendar year 2011.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Board’s contributions allocated to fund post-employment health care benefits for the year ended December 31, 2011 was \$17,346.

**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  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended December 31, 2011

Federal Grantor Pass-Through Grantor Program Title	Pass-Through Identifying Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	22-0022-VOCRHB-T-11-11113	84.126	\$27,913
Rehabilitation Services - Vocational Rehabilitation Grants to States	22-0022-VOCRHB-T-12-11113	84.126	63,316
Rehabilitation Services - Vocational Rehabilitation Grants to States	---	84.126	200,016
Total Rehabilitation Services - Vocational Rehabilitation Grants to States			<u>291,245</u>
<b>Total U.S. Department of Education</b>			<u>291,245</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through Ohio Department of Mental Health:			
Child Care and Development Block Grant	N/A	93.575	20,928
Social Services Block Grant	MH-15-11	93.667	49,577
Social Services Block Grant	MH-15-12	93.667	35,156
Total Social Services Block Grant			<u>84,733</u>
Medical Assistance Program	N/A	93.778	1,351,661
ARRA - Medical Assistance Program	N/A	93.778	70,070
Total Medical Assistance Program			<u>1,421,731</u>
Block Grants for Community Mental Health Services	N/A	93.958	10,938
Block Grants for Community Mental Health Services	N/A	93.958	68,441
Block Grants for Community Mental Health Services	N/A	93.958	1,063
Block Grants for Community Mental Health Services	N/A	93.958	495
Total Block Grants for Community Mental Health Services			<u>80,937</u>
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	SPF SIG	93.243	53,452
Medical Assistance Program	N/A	93.778	205,113
ARRA - Medical Assistance Program	N/A	93.778	10,554
Total Medical Assistance Program			<u>215,667</u>
Block Grants for Prevention and Treatment of Substance Abuse	FY11-FA/DBG&F/IVBG	93.959	167,948
Block Grants for Prevention and Treatment of Substance Abuse	FY12-FA/DBG&F/IVBG	93.959	122,733
Block Grants for Prevention and Treatment of Substance Abuse	FY12-FA/DBG&F/IVBG YLP	93.959	3,657
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>294,338</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>2,171,786</u>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			<u><u>\$2,463,031</u></u>

The notes to this schedule are an important part of this schedule

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – 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 of Expenditures of Federal Awards.

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, OH 44870

To the Board of Trustees:

We have audited the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties (the Board), as of and for the year ended December 31, 2011, and have issued our report thereon dated June 4, 2012, wherein we noted the Mental Health and Recovery Board of Erie and Ottawa Counties followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Board's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Board's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of internal control deficiencies, resulting in more than a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

## Compliance and Other Matters

As part of reasonably assuring whether the Board's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the Board's management in a separate letter dated June 4, 2012.

We intend this report solely for the information and use of management, the Board of Trustees, federal awarding agencies and pass-through entities, and others within the Board. We intend it for no one other than those specified parties.

*Varney, Fink & Associates*

VARNEY, FINK & ASSOCIATES, INC.  
Certified Public Accountants

June 4, 2012

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO  
EACH MAJOR FEDERAL PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY *OMB CIRCULAR A-133***

Mental Health and Recovery Board of Erie and Ottawa Counties  
Erie County  
416 Columbus Avenue  
Sandusky, OH 44870

To the Board of Trustees:

**Compliance**

We have audited the compliance of the 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 could directly and materially affect each of the Mental Health and Recovery Board of Erie and Ottawa Counties (the Board) major federal programs for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Board's major federal programs. The Board's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to opine on the Board's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Board's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Board's compliance with these requirements.

In our opinion, the Board, complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2011.

## Internal Control Over Compliance

The Board's, management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Board'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, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. 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 federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

*Varney, Fink & Associates*

Varney, Fink & Associates, Inc.  
Certified Public Accountants

June 4, 2012

MENTAL HEALTH AND RECOVERY BOARD OF  
ERIE AND OTTAWA COUNTIES

**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A-133 § .505**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of financial statement opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of major programs' compliance opinion	Unqualified
(d)(1)(vi)	Are there any reportable audit findings under §510(a)	No

MENTAL HEALTH AND RECOVERY BOARD OF  
ERIE AND OTTAWA COUNTIES

**SCHEDULE OF FINDINGS**  
**OMB CIRCULAR A-133 § .505**

**FOR THE YEAR ENDED DECEMBER 31, 2011**  
**(CONTINUED)**

(d)(1)(vii)	Major Programs:	Medical Assistance Program, CFDA #93.778.
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE  
REPORTED IN ACCORDANCE WITH GAGAS**

**None**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**None**





# Dave Yost • 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  
OCTOBER 11, 2012**