

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES

SINGLE AUDIT REPORTS

JUNE 30, 2018



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MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES

SINGLE AUDIT REPORTS

JUNE 30, 2018

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

January 24, 2019

To The Board of Directors
Mental Health Systems, Inc. and subsidiaries
San Diego, California

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 consolidated financial statements of Mental Health Systems, Inc. and subsidiaries (collectively, the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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. 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. 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.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONT.)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from 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 the consolidated 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

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



CliftonLarsonAllen LLP
Los Angeles, California
January 24, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

January 24, 2019

To The Board of Directors
Mental Health Systems, Inc. and subsidiaries
San Diego, California

Report on Compliance for Each Major Federal Program

We have audited the compliance of Mental Health Systems, Inc. and subsidiaries (collectively, the "Organization"), with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the fiscal year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 the Organization'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 the Organization's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONT.)**

Opinion on Each Major Federal Program

In our opinion, the Organization 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 June 30, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal 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 the Organization'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 a 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 a 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.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONT.)**

Schedule of Expenditure of Federal Awards

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2018, and have issued our report thereon dated January 24, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the consolidated 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 consolidated 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 and other records used to prepare the financial statements or to the 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 financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Los Angeles, California
January 24, 2019

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

· Material weakness(es) identified? _____ Yes X No
 · Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Type of auditors' report issued on compliance for major programs: Unmodified

Internal control over major programs:

· Material weakness(es) identified? _____ Yes X No
 · Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

_____ Yes X No

Major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program
93.275	Substance Abuse & Mental Health Services - Access to Recovery
14.267	Continuum of Care Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk? X Yes _____ No

See accompanying auditors' reports.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section II - Financial Statement Findings

None

See accompanying auditors' reports.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section III - Federal Award Findings and Questioned Costs

None

See accompanying auditors' reports.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section IV - Prior Audit Findings and Questioned Costs

None

See accompanying auditors' reports.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Grantor	Grant Award or Contract Number	Federal Expenditures
Administrative Office of the U.S Courts Office of Probation and Pretrial Services:				
FPP Barstow, Victorville, Yucca Valley MH	99.XXX	Federal Probation Program	0973-16-106	70,482
CHULA VISTA FPP- SUBSTANCE ABUSE	99.XXX	Federal Probation Program	0974-2016-SA02	108,663
CHULA VISTA FPP- MENTAL HEALTH	99.XXX	Federal Probation Program	0974-2016-MH02	164,042
UA NORTH COUNTY FPP	99.XXX	Federal Probation Program	0974-2016-SA08	41,283
Pre-Trial FPP (MH) - Southbay	99.XXX	Federal Probation Program	0974-18-006	46,185
				<u>430,655</u>
Department of Education Office of Special Education and Rehabilitative Services:				
Employment Services	84.126A	State of California	29621	<u>642,358</u>
Department of Health and Human Services:				
One Stop TAY Center	93.778	County of San Bernardino	15-530	746,457
Fresno IMPACT	93.778	County of Fresno	14-276-1	424,814
Family and Adult Alternatives	93.778	County of Fresno	16-360 DMC	95,043
Contra Costa Assertive Outpatient Treatment ACT	93.778	County of Contra Costa	74-503-2	543,217
TBS SAN BERNARDINO	93.778	County of San Bernardino	16-413	617,784
SUCCESS FIRST - EARLY WRAP PROGRAM	93.778	County of San Bernardino	16-404	535,646
FRESNO JUVENILE TREATMENT	93.778	County of Fresno	16-360	44,351
				<u>3,007,312</u>
CAT+	93.297	San Diego Youth Services	1 TP1AH000110-02-00	<u>167,187</u>
North Coastal Mental Health Clinic	93.150	County of San Diego	547336	48,632
North Inland Mental Health Clinic	93.150	County of San Diego	547337	52,036
				<u>100,668</u>
Kern ACT-ION	93.275	County of Kern	275-2017	<u>811,507</u>
SAMHSA Fresno Juvenile Justice Center	93.958	County of Fresno	13-574-2	<u>287,856</u>
CalWORKs Youth Employment Program (CYEP)	93.558	County of San Bernardino	16-466	73,458
WDD CSEP	93.558	County of San Bernardino	17-476	62,762
				<u>136,220</u>
TEEN RECOVERY CENTER	93.959	County of San Diego	551085	354,000
NORTH INLAND PRIMARY PREVENTION	93.959	County of San Diego	551559	373,000
FAMILY REC CTR RESIDENTIAL	93.959	County of San Diego	553434	304,398
NORTH COUNTY DRUG COURT	93.959	County of San Diego	554861	91,877
SOUTH COUNTY DRUG COURT	93.959	County of San Diego	554862	91,877
EAST COUNTY DRUG COURT	93.959	County of San Diego	554863	91,877
SD CENTER FOR CHANGE	93.959	County of San Diego	554864	91,877
SERIAL INEBRIATE PROGRAM	93.959	County of San Diego	554929	35,000
FRESNO JUVENILE TREATMENT	93.959	County of Fresno	13-395	366,945
BIG BEAR DRUG COURT	93.959	County of San Bernardino	14-591	18,413
FONTANA CFC	93.959	County of San Bernardino	14-591	21,068
SAN BERNARDINO CFC	93.959	County of San Bernardino	14-591	104,570
JOSHUA TREE DRUG COURT	93.959	County of San Bernardino	14-591	105,365
VICTORVALLEY CFC	93.959	County of San Bernardino	14-591	123,326
NEEDLES RECOVERY CENTER	93.959	County of San Bernardino	15-320	142,524
YUCCA VALLEY RECOVERY CENTER	93.959	County of San Bernardino	15-320	143,220
CENTRAL VALLEY RECOVERY CENTER	93.959	County of San Bernardino	15-320	151,546
NEEDLES PRIMARY PREVENTION	93.959	County of San Bernardino	15-400	156,866
SAN BERNARDINO PRIMARY PREVENTION	93.959	County of San Bernardino	15-400	404,231
Fresno Perinatal Residential	93.959	County of Fresno	16-295	255,564
NEEDLES OUTPATIENT SERVICES	93.959	County of San Bernardino	17-337	44,909
BIG BEAR OUTPATIENT	93.959	County of San Bernardino	17-337	46,906
CENTRAL VALLEY RRC	93.959	County of San Bernardino	17-337	52,972
YUCCA VALLEY OUTPATIENT	93.959	County of San Bernardino	17-337	77,103
P.R.I.D.E.	93.959	County of San Bernardino	17-337	152,769
Family and Adult Alternatives	93.959	County of Fresno	A-16-361 SAPT	1,218
				<u>3,803,421</u>
				<u>8,314,171</u>

See accompanying notes to schedule of expenditures of federal awards.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-through Grantor	Grant Award or Contract Number	Federal Expenditures
Department of Housing and Urban Development:				
Fresno Housing Plus III	14.235		CA0975L9T141701	36,897 <u>36,897</u>
SHELTER PLUS CARE II	14.267	City of San Diego	CA0689L9D011401	74,954
CONTINUUM OF CARE I	14.267	County of San Diego	CA0693L9D011609	58,206
MHS NEXT STEP HUD	14.267		CA0706L9D011609	65,100
NORTH COUNTY SAFE HAVEN	14.267	County of San Diego	CA0708L9D011609	187,035
FRESNO HOUSING PLUS II	14.267		CA0843L9T141604	164,984
SHELTER PLUS CARE IV	14.267	County of San Diego	CA0863C9D010900	265,413
SHELTER PLUS CARE IIIa	14.267		CA0880L9D011602	62,608
SHELTER PLUS CARE III	14.267	County of San Diego	CA0881L9D011602	82,063
Hacienda Housing	14.267		CA1567L9T141600	43,035 <u>1,003,398</u>
Sponsor Based Vouchers II	14.871	San Diego Housing Commission	RAP-14-01.4 (2/17 - 1/18)	176,531
SPONSOR BASED VOUCHERS VIP	14.871	San Diego Housing Commission	MOU - SBV	154,720 <u>331,251</u>
Sponsor Based Vouchers II	14.881	San Diego Housing Commission	MOU (Feb 18 - Jan 19)	123,600
ACTION Central SBS MH	14.881	San Diego Housing Commission	MOU - Homes Central	133,802
ACTION Central SBS SUD	14.881	San Diego Housing Commission	MOU - Homes Central	179,071
City Star ACT SBS Vouchers	14.881	San Diego Housing Commission	MOU - City Star SBS	477
Center Star [50] SBS Housing	14.881	San Diego Housing Commission	MOU -Center Star SBS	51,311 <u>488,261</u>
				<u>1,859,807</u>
Department of Justice:				
Byrne JAG Alternatives to Detention	16.738	South Bay Community Services	MOU	104,663
Alternatives to Detention Title III	16.738	South Bay Community Services	MOU	47,824 <u>152,487</u>
Department of Labor:				
WIOA Steps to Success (2016-2018)	17.259	County of San Bernardino	16-286	15,955
WIOA Steps to Success (2017-2019)	17.259	County of San Bernardino	16-286	96,633 <u>112,588</u>
Total Expenditures of Federal Awards				<u>\$ 11,512,066</u>

See accompanying notes to schedule of expenditures of federal awards.

MENTAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE 1: BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes contract activity of the Organization and is presented on the accrual basis of accounting, which is the same basis of accounting used in the preparation of the financial statements.

The information in this schedule is presented in accordance with the requirements of the Uniform Guidance and agrees with the amounts in the financial statements.

NOTE 2: INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance, as the Organization has a negotiated rate for indirect costs.

