

**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

**NEWS RELEASE**

FOR RELEASE

June 18, 2019

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an audit report on Southern Hills Regional Mental Health for the year ended June 30, 2018.

Southern Hills Regional Mental Health's revenues totaled \$1,022,174 for the year ended June 30, 2018, including \$934,133 of property and other county tax, \$87,905 from state tax credits and \$136 from charges for service.

Expenditures for the year ended June 30, 2018 totaled \$988,546, and included \$762,586 for direct services to consumers and \$225,960 for general administration.

A copy of the audit report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

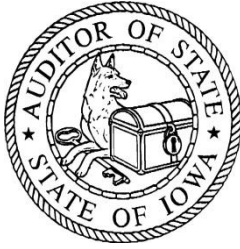
###

**SOUTHERN HILLS REGIONAL MENTAL HEALTH**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SCHEDULE OF FINDINGS**

**JUNE 30, 2018**

**Southern Hills Regional Mental Health**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

June 4, 2019

Officials of Southern Hills Regional Mental Health  
Union County, Iowa (Fiscal Agent)

Dear Board Members:

I am pleased to submit to you the financial and compliance audit report for Southern Hills Regional Mental Health for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Southern Hills Regional Mental Health throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

## Table of Contents

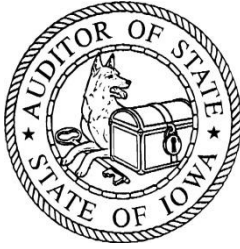
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Basic Financial Statements:	<u>Exhibit</u>
Statement of Net Position	A      10
Statement of Activities	B      11
Balance Sheet	C      13
Statement of Revenues, Expenditures and Changes in Fund Balances	D      14-15
Notes to Financial Statements	17-22
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	24-25
Schedule of Findings	26-27
Staff	28

**Southern Hills Regional Mental Health**

**Regional Governance Board**

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Ron Riley	Board Chair	Union County Board of Supervisors
John Twombly	Vice Chair	Adair County Board of Supervisors
Linda England	Board Member	Adams County Board of Supervisors
Jerry Murphy	Board Member	Taylor County Board of Supervisors
Pete Brantner	Board Member	Crossroads Behavioral Health
Lori Nosekabel	Chief Executive Officer	

**Southern Hills Regional Mental Health**



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Independent Auditor's Report

To the Regional Governance Board of Southern Hills Regional Mental Health:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Southern Hills Regional Mental Health, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise Southern Hills Regional Mental Health's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Southern Hills Regional Mental Health's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southern Hills Regional Mental Health's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## Opinions

### *Basis for Adverse Opinion on the Governmental Activities*

As discussed in Note 3, management has not recorded a liability for compensated absences in governmental activities and, accordingly, has not recorded an expense for the current year change in that liability. U.S. generally accepted accounting principles require compensated absences attributable to employee services already rendered and not contingent on a specific event outside the control of Southern Hills Regional Mental Health and employees be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the liabilities, net position and expenses of governmental activities has not been determined.

Also, as discussed in Note 3 to the financial statements, management has not recorded a total OPEB liability and a deferred outflow of resources or deferred inflow of resources related to other postemployment benefits (OPEB) in governmental activities and, accordingly, has not recorded an expense for the current year change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. general accepted accounting principles require OPEB costs attributable to employee service already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflow of resources, reduce the net position and change the expenses of the governmental activities. The amount by which this departure affects deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of the governmental activities has not been determined.

In addition, as discussed in Note 3 to the financial statements, management has not recorded a net pension liability, deferred outflows of resources or deferred inflows of resources related to pensions in governmental activities and, accordingly, has not recorded pension expense for the current year change in that liability, deferred outflows of resources or deferred inflows of resources. U.S. generally accepted accounting principles require pension costs attributable to employee services already rendered be accrued as liabilities, deferred outflows of resources, deferred inflows of resources and expenses, which would increase the liabilities, deferred outflows of resources and/or deferred inflows of resources, reduce the net position and change the expenses of governmental activities. The amount by which this departure affects the deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of governmental activities has not been determined.

### *Adverse Opinion*

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on Governmental Activities” paragraphs above, the Statement of Net Position and the Statement of Activities of the governmental activities do not present fairly the financial position of the governmental activities of Southern Hills Regional Mental Health as of June 30, 2018, or the changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

### *Unmodified Opinions*

In our opinion, based on our audit, the accompanying Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances of each major fund present fairly, in all material respects, the financial position of Southern Hills Regional Mental Health as of June 30, 2018, and the changes in its financial position for the year then ended in accordance with U.S generally accepted accounting principles.

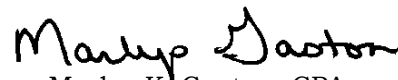
Other Matters

*Required Supplementary Information*

Management has omitted Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are not affected by this omitted information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2019 on our consideration of Southern Hills Regional Mental Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Southern Hill Regional Mental Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Southern Hills Regional Mental Health's internal control over financial reporting and compliance.

  
Marlys K. Gaston, CPA  
Deputy Auditor of State

June 4, 2019

**Southern Hills Regional Mental Health**

## **Basic Financial Statements**

## Southern Hills Regional Mental Health

## Statement of Net Position

June 30, 2018

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 454,926
Receivables:	
Property tax:	
Delinquent	7,921
Succeeding year	966,000
Due from other governments	<u>45,509</u>
<b>Total assets</b>	<u>1,474,356</u>
<b>Liabilities</b>	
Accounts payable	43,931
Due to other governments	<u>12,714</u>
<b>Total liabilities</b>	<u>56,645</u>
<b>Deferred Inflows of Resources</b>	
Unavailable property tax revenue	<u>966,000</u>
<b>Net Position</b>	
Restricted for mental health purposes	<u>\$ 451,711</u>
See notes to financial statements.	

Southern Hills Regional Mental Health

Statement of Activities

Year ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>	<u>Charges for Service</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Mental health	\$ 988,546		136	(988,410)
<b>General Revenues:</b>				
Property and other county tax levied for mental health purposes				934,133
State tax credits				<u>87,905</u>
Total general revenues				<u>1,022,038</u>
Change in net position				33,628
Net position beginning of year				<u>418,083</u>
Net position end of year				<u>\$ 451,711</u>

See notes to financial statements.

**Southern Hills Regional Mental Health**

Southern Hills Regional Mental Health

Balance Sheet

June 30, 2018

	Special Revenue, Mental Health Funds					Total
	Fiscal Agent	Adams County	Adair County	Taylor County	Union County	
<b>Assets</b>						
Cash and pooled investments	\$ 362,212	29,634	11,774	5,329	45,977	454,926
Receivables:						
Property tax:						
Delinquent	-	46	716	160	6,999	7,921
Succeeding year	-	141,000	234,000	131,000	460,000	966,000
Due from other governments	45,509	-	-	-	-	45,509
<b>Total assets</b>	<b>\$ 407,721</b>	<b>170,680</b>	<b>246,490</b>	<b>136,489</b>	<b>512,976</b>	<b>1,474,356</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 43,931	-	-	-	-	43,931
Due to other governments	12,714	-	-	-	-	12,714
Total liabilities	56,645	-	-	-	-	56,645
Deferred inflows of resources:						
Unavailable revenues:						
Succeeding year property tax	-	141,000	234,000	131,000	460,000	966,000
Other	-	38	716	160	6,999	7,913
Total deferred inflows of resources	-	141,038	234,716	131,160	466,999	973,913
Fund balances:						
Restricted for mental health purposes	351,076	29,642	11,774	5,329	45,977	443,798
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 407,721</b>	<b>170,680</b>	<b>246,490</b>	<b>136,489</b>	<b>512,976</b>	

Amounts reported in the Statement of Net Position are different because certain long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.

	7,913
Net position of governmental activities	\$ 451,711

See notes to financial statements.



Southern Hills Regional Mental Health

Statement of Revenues, Expenditures and  
Changes in Fund Balances

Year ended June 30, 2018

	Special Revenue, Mental Health Funds				
	Fiscal Agent	Adams County	Adair County	Taylor County	Union County
Revenues:					
Property and other county tax	\$ -	144,961	237,917	89,067	459,913
Intergovernmental revenues:					
State tax credits	-	10,705	22,886	10,224	44,090
Payments from member counties	995,906	-	-	-	-
Total intergovernmental revenues	995,906	10,705	22,886	10,224	44,090
Miscellaneous	136	-	-	-	-
Total revenues	996,042	155,666	260,803	99,291	504,003
Expenditures:					
Services to persons with:					
Mental illness	697,488	-	-	-	-
Intellectual disabilities	65,098	-	-	-	-
Total direct services	762,586	-	-	-	-
General administration:					
Direct administration	225,960	-	-	-	-
Distribution to MHDS regional fiscal agent	-	153,311	251,932	95,508	495,155
Total general administration	225,960	153,311	251,932	95,508	495,155
Total mental health, intellectual disabilities and developmental disabilities expenditures	988,546	153,311	251,932	95,508	495,155
Net change in fund balances	7,496	2,355	8,871	3,783	8,848
Fund balances beginning of year	343,580	27,287	2,903	1,546	37,129
Fund balances end of year	\$ 351,076	29,642	11,774	5,329	45,977

**Reconciliation of Statement of Revenues, expenditures and  
changes in fund balances to the Statement of Activities  
Change in fund balance**

Amounts reported in the Statement of Activities are different because some revenues will not be collected for several months after year end and, therefore, are not considered available revenues in the governmental funds.

**Change in net position of governmental activities**

See notes to financial statement.

---

<u>Elimination Entries</u>	<u>Region Total</u>
-	931,858
-	87,905
(995,906)	-
(995,906)	87,905
-	136
(995,906)	1,019,899
-	697,488
-	65,098
-	762,586
-	225,960
(995,906)	-
(995,906)	225,960
(995,906)	988,546
-	31,353
-	412,445
-	443,798
	31,353
	2,275
<u>\$</u>	<u>33,628</u>

**Southern Hills Regional Mental Health**

# Southern Hills Regional Mental Health

## Notes to Financial Statements

June 30, 2018

### **(1) Summary of Significant Accounting Policies**

Southern Hills Regional Mental Health (Southern Hills) is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. Southern Hills includes the following member counties: Adair, Adams, Taylor and Union Counties. The member counties entered into this 28E agreement on July 1, 2014 to create a mental health and disability service regional administrative entity as described by Chapter 331.389 of the Code of Iowa to provide local access to mental health and disability services for adults and to engage in any other related activity in which an Iowa 28E organization may lawfully be engaged.

Southern Hills' governing board is comprised of at least one Board of Supervisors' member, or their designees, from each member county. The governing board also includes one individual who utilizes mental health and disability services or is an actively involved relative of such an individual, serving in a nonvoting, ex officio capacity.

Southern Hills designated Union County as the fiscal agent to account for all its funds as permitted by Chapter 331.391 of the Code of Iowa.

Except as noted in the Independent Auditors Report, Southern Hills' financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements of Southern Hills Regional Mental Health are intended to present the financial position and the changes in financial position of Southern Hills Regional Mental Health, which includes funds held by Southern Hills Regional Mental Health's fiscal agent and funds held by the individual member counties in their respective Special Revenue, Mental Health Funds. Capital assets used for mental health purposes are owned by the respective member counties and, accordingly, are not reported in these financial statements.

#### A. Reporting Entity

For financial reporting purposes, Southern Hills has included all funds, organizations, agencies, commissions and authorities. Southern Hills has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with Southern Hills are such that exclusion would cause Southern Hills' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Southern Hills to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Southern Hills. Southern Hills has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Entity-wide financial statements – The Statement of Net Position and the Statement of Activities report information on all of the activities of Southern Hills Regional Mental Health.

The Statement of Net Position presents the assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following category:

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include grants, contributions and interest restricted to meeting the operational requirements of a particular function. Property and other county tax, state tax credits, unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Southern Hills Regional Mental Health reports the following major governmental funds:

Special Revenue:

Mental Health Fund (Fiscal Agent) is used to account for the activity of Southern Hills Regional Mental Health not expended directly from the Special Revenue, Mental Health Funds of the other member counties.

The Special Revenue, Mental Health Funds of the member counties are used to account for property tax and other revenues to be used to fund mental health, intellectual disabilities and developmental disabilities services.

C. Measurement Focus and Basis of Accounting

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, Southern Hills Regional Mental Health considers revenues to be available if they are collected by Southern Hills Regional Mental Health or a member county within 90 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by Southern Hills Regional Mental Health or a member county.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, Southern Hills Regional Mental Health funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is Southern Hills Regional Mental Health's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, Southern Hills Regional Mental Health's policy is to pay the expenditure from restricted fund balance and then from less-restrictive unassigned fund balances.

#### D. Assets, Liabilities, Deferred Inflows of Resources and Fund Balance

The following accounting policies are followed in preparing the financial statements:

Cash and Pooled Investments – The cash balances of most Southern Hills Regional Mental Health funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or a member county's Special Revenue, Mental Health Fund unless otherwise provided by law. Investments are stated at fair value except for the non-negotiable certificates of deposit which are stated at amortized cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by each member county Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by each member county Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, each member county Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is recorded as a deferred inflow of resources in both the entity-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified by each member county board of supervisors in March 2017.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Due to Other Governments – Due to other governments represents payments for services which will be remitted to other governments.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and other receivables not collected within 90 days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized until the year for which it is levied.

Fund Balance – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

## **(2) Cash and Investments**

Southern Hills Regional Mental Health's deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

Southern Hills Regional Mental Health is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by Southern Hills; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Southern Hills Regional Mental Health had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**(3) Compensated Absences, Other Postemployment Benefits (OPEB) and Pension Plan**

In accordance with statements of understanding between Southern Hills Regional Mental Health's governing Board and each individual member county Board of Supervisors, Southern Hills Regional Mental Health's Chief Executive Officer, the Coordinators of Disability Services and all support staff of Southern Hills Regional Mental Health's remain employees of the respective individual member counties. The applicable portion of the employee's wages and benefits are reimbursed to the individual member county by Southern Hills Regional Mental Health.

The individual member county employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. The individual member county employees are also provided other postemployment and pension benefits. U.S. generally accepted accounting principles require deferred outflows of resources, liabilities, deferred inflows of resources and related expenses to be recorded when incurred for these items in the governmental activities financial statements. Southern Hills Regional Mental Health's governmental activities financial statements do not report these amounts.

**(4) Risk Management**

Southern Hills Regional Mental Health is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 775 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

Southern Hills Regional Mental Health's property and casualty contributions to the Pool are recorded as expenditures from its operating funds at the time of payment to the Pool. Southern Hills Regional Mental Health's contributions to the Pool for the year ended June 30, 2018 were \$5,056.



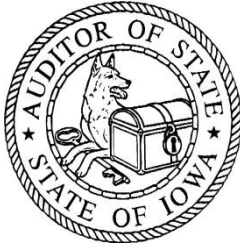
The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by Southern Hills' risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by Southern Hills Regional Mental Health's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by Southern Hills Regional Mental Health's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Southern Hills Regional Mental Health does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2018, no liability has been recorded in Southern Hills Regional Mental Health's financial statements. As of June 30, 2018, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

**Southern Hills Regional Mental Health**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Regional Governance Board of Southern Hills Regional Mental Health:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Southern Hills Regional Mental Health as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise Southern Hills Regional Mental Health's basic financial statements, and have issued our report thereon dated June 4, 2019. Our report expressed unmodified opinions on the financial statements of each major fund. Our report expressed an adverse opinion on the financial statements of the governmental activities due to the omission of compensated absences, other postemployment benefits and pension related activity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Hills Regional Mental Health's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Hills Regional Mental Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Hills Regional Mental Health'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 a material misstatement of Southern Hills Regional Mental Health'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Hills Regional Mental Health's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Southern Hills Regional Mental Health's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Southern Hills Regional Mental Health. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

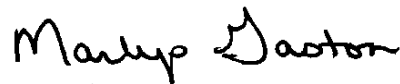
### Southern Hills Regional Mental Health's Responses to the Findings

Southern Hills Regional Mental Health's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Southern Hills Regional Mental Health's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on them.

### 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 Southern Hills Regional Mental Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Southern Hills Regional Mental Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Hills Regional Mental Health during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Marlys K. Gaston, CPA  
Deputy Auditor of State

June 4, 2019

Southern Hills Regional Mental Health

Schedule of Findings

Year ended June 30, 2018

**Finding Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

(A) Annual Report

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Region's financial statements.

Condition – Revenues and expenditures in the Southern Hills Mental Health Region's Annual Report did not agree to financial information reported in its member counties' respective GAAP-basis annual financial reports. Additionally, we identified material amounts of receivables recorded in the wrong fiscal year. Adjustments were subsequently made by the Region to properly include these amounts in the financial statements.

Cause – Region policies and procedures have not been established to require independent review of member counties' annual financial reports and year end cut-off transactions to ensure the Region's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Region employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Region's financial statements were necessary.

Recommendation – The Region should establish procedures to ensure all receivables and payables are identified and are properly reported in the Region's financial statements. The Region should also verify financial information presented in its annual report agrees to the GAAP-basis financial information reported in its respective member counties' annual financial reports.

Response – The Region shall develop procedures to work with each member county to ensure that all monies are properly reported and verify that figures in the annual report agree with the member counties' annual financial reports.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Southern Hills Regional Mental Health

Schedule of Findings

Year ended June 30, 2018

**Other Findings Related to Required Statutory Reporting:**

- (1) Minutes – No transactions were found that we believe should have been approved in the Regional Governance Board minutes but were not.

However, minutes of Regional Governance Board meetings were not published as required by Chapter 28E.6(3)(a) of the Code of Iowa.

Also, minutes do not indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – Southern Hills Regional Mental Health should ensure the minutes include the vote of each member present and are published as required.

Response – Minutes will be sent to publishing newspaper in a timely manner to ensure the publishing deadline is met. The roll-call vote on each motion will be noted in the minutes record.

Conclusion – Response accepted.

- (2) Travel Expense – No expenditures of Southern Hills Regional Mental Health’s money for travel expenses of spouses of officials or employees were noted.
- (3) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and Southern Hills Regional Mental Health’s investment policy were noted.
- (4) Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

Southern Hills Regional Mental Health

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
Deborah J. Moser, CPA, Manager  
Adjoa S. Adanledji, Staff Auditor  
Noelle M. Luebbers, Assistant Auditor