



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

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**NEWS RELEASE**

FOR RELEASE

June 27, 2018

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released an audit report on Mental Health Disability Services of the East Central Region (MHDS-ECR) for the year ended June 30, 2017.

MHDS-ECR's revenues totaled \$18,131,863 for the year ended June 30, 2017, including \$16,443,575 from property and other county tax, \$1,361,453 from state tax credits, \$249,354 from charges for service, \$71,134 from operating grants, contributions and restricted interest and \$6,347 from unrestricted investment earnings.

Expenditures for the year ended June 30, 2017 totaled \$17,413,641, and included \$15,393,359 for direct services and \$2,020,282 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/1714-2363-B00F>.

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**MENTAL HEALTH DISABILITY SERVICES  
OF THE EAST CENTRAL REGION  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SHEDULE OF FINDINGS**

**JUNE 30, 2017**

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**Mental Health Disability Services  
of the East Central Region**

**Regional Governance Board**

<u>Name</u>	<u>Title</u>	<u>Representing</u>
Wayne Manternach	Board Chair	Jones County Board of Supervisors
Rod Sullivan	Vice Chair	Johnson County Board of Supervisors
Don Frese (Term ended Dec 2016)	Board Member	Benton County Board of Supervisors
Gary Bierschenk (Term began Jan 2017)	Board Member	Benton County Board of Supervisors
Duane Hildebrandt	Board Member	Bremer County Board of Supervisors
Ellen Gaffney (Term ended Dec 2016)	Board Member	Buchanan County Board of Supervisors
Gary Gissel (Term began Jan 2017)	Board Member	Buchanan County Board of Supervisors
Shirley Helmrichs	Board Member	Delaware County Board of Supervisors
Daryl Klein	Board Member	Dubuque County Board of Supervisors
Vicki Pope	Board Member	Iowa County Board of Supervisors
Ben Rogers	Board Member	Linn County Board of Supervisors
Diane Brecht	Non-Voting Ex-Officio Board Member	
Corrina Todd	Non-Voting Ex-Officio Board Member	
Mechelle Dhondt	Chief Executive Officer	

**Mental Health Disability Services  
of the East Central Region**



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Independent Auditor's Report

To the Regional Governance Board of Mental Health Disability Services of the East Central Region:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Mental Health Disability Services of the East Central Region (MHDS-ECR), as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise MHDS-ECR'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 did not audit the Special Revenue, Mental Health Funds of Benton County, Bremer County, Buchanan County, Delaware County, Dubuque County, Iowa County, Johnson County and Linn County, which represent the following:

<u>Member County</u>	<u>Share of Assets</u>	<u>Share of Fund Balance</u>	<u>Share of Revenues</u>
Benton	5.58%	5.92%	5.51%
Bremer	4.46%	5.95%	5.85%
Buchanan	5.57%	7.71%	5.18%
Delaware	3.19%	3.16%	5.34%
Dubuque	14.15%	16.72%	11.50%
Iowa	4.15%	6.41%	4.50%
Johnson	13.58%	6.86%	22.32%
Linn	37.90%	34.70%	49.29%

Those Special Revenue, Mental Health Funds were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Benton County, Bremer County, Buchanan County, Delaware County, Dubuque County, Iowa County, Johnson County and Linn County, is based solely on the reports of the other auditors. 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 MHDS-ECR's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MHDS-ECR'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 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 the 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 MHDS-ECR 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 the governmental activities. The amount by which this departure affects the liabilities, net position and expenses of the governmental activities has not been determined.

Also, as discussed in Note 3, management has not recorded a liability for other postemployment benefits (OPEB) in the governmental activities and, accordingly, has not recorded an expense for the current year change in that liability. U.S. generally accepted accounting principles require MHDS-ECR's annual OPEB costs based on the annual required contribution of MHDS-ECR, an amount actuarially determined in accordance with GASB Statement No. 45, be accrued as liabilities and expenses, which would increase the liabilities, reduce the net position and change the expenses of the governmental activities. The amount by which this departure affects the liabilities, net position and expenses of the governmental activities has not been determined.

In addition, as discussed in Note 3, management has not recorded a net pension liability, deferred outflows of resources or deferred inflows of resources related to pensions in the 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 the governmental activities. The amount by which this departure affects the deferred outflows of resources, liabilities, deferred inflows of resources, net position and expenses of the 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 the 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 MHDS-ECR as of June 30, 2017, 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 and the reports of the other auditors, the accompanying Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances of each major fund present fairly, in all material respects, the financial position of MHDS-ECR as of June 30, 2017, 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 basic 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 21, 2018 on our consideration of MHDS-ECR's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 MHDS-ECR'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 MHDS-ECR's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA  
Auditor of State

June 21, 2018

**Mental Health Disability Services  
of the East Central Region**

## **Basic Financial Statements**

**Exhibit A**

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Mental Health Disability Services  
of the East Central Region

## Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and pooled investments	\$ 35,694,344
Receivables:	
Property tax:	
Delinquent	36,931
Succeeding year	16,690,308
Accounts	7,983
Due from other governments	3,117
Prepaid expenses	<u>61,266</u>
<b>Total assets</b>	<u>52,493,949</u>
<b>Liabilities</b>	
Accounts payable	1,472,063
Salaries and benefits payable	55,695
Due to other governments	<u>248,580</u>
<b>Total liabilities</b>	<u>1,776,338</u>
<b>Deferred Inflows of Resources</b>	
Unavailable property tax revenue	<u>16,690,308</u>
<b>Net Position</b>	
Restricted for mental health purposes	<u>\$ 34,027,303</u>

See notes to financial statements.

Mental Health Disability Services  
of the East Central Region

Statement of Activities

Year ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	
<b>Governmental activities:</b>				
Mental health	\$ 17,413,641	249,354	71,134	(17,093,153)
<b>General Revenues:</b>				
Property and other county tax levied for mental health purposes				16,443,575
State tax credits				1,361,453
Investment earnings				6,347
Total general revenues				17,811,375
Change in net position				718,222
Net position beginning of year				33,309,081
Net position end of year				\$ 34,027,303

See notes to financial statements.

Mental Health Disability Services  
of the East Central Region

Balance Sheet

June 30, 2017

	Special Revenue,			
	Fiscal Agent	Benton County	Bremer County	Buchanan County
<b>Assets</b>				
Cash and pooled investments	\$ 5,167,804	1,972,360	1,982,531	2,582,346
Receivables:				
Property tax:				
Delinquent	-	1,216	1,962	601
Succeeding year	-	917,214	372,816	295,204
Accounts	7,928	-	-	-
Due from other governments	21,528	39,672	37,651	47,280
Prepaid expenditures	-	-	1,017	203
<b>Total assets</b>	<b>\$ 5,197,260</b>	<b>2,930,462</b>	<b>2,395,977</b>	<b>2,925,634</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,466,535	194	20	333
Salaries and benefits payable	-	1,580	1,996	6,360
Due to other governments	1,014,743	-	150	-
Total liabilities	2,481,278	1,774	2,166	6,693
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	-	917,214	372,816	295,204
Other	-	1,198	1,962	5,869
Total deferred inflows of resources	-	918,412	374,778	301,073
Fund balances:				
Nonspendable for prepaid expenditures	-	-	1,017	203
Restricted for mental health purposes	2,715,982	2,010,276	2,018,016	2,617,665
Total fund balances	2,715,982	2,010,276	2,019,033	2,617,868
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 5,197,260</b>	<b>2,930,462</b>	<b>2,395,977</b>	<b>2,925,634</b>

See notes to financial statements.

Mental Health Funds							
Delaware County	Dubuque County	Iowa County	Johnson County	Jones County	Linn County	Elimination Entries	Total
1,003,361	5,576,929	2,158,637	2,174,838	1,512,684	11,562,854	-	35,694,344
851	3,463	-	3,839	-	24,999	-	36,931
595,000	1,729,441	-	4,751,491	-	8,029,142	-	16,690,308
-	-	-	55	-	-	-	7,983
77,813	118,688	20,709	197,648	44,733	219,678	(822,283)	3,117
-	-	-	-	-	60,046	-	61,266
1,677,025	7,428,521	2,179,346	7,127,871	1,557,417	19,896,719	(822,283)	52,493,949
648	3,418	1,479	436	552	1,452	(3,004)	1,472,063
7,653	6,445	-	20,036	6,019	5,606	-	55,695
-	-	-	55	-	52,911	(819,279)	248,580
8,301	9,863	1,479	20,527	6,571	59,969	(822,283)	1,776,338
595,000	1,729,441	-	4,751,491	-	8,029,142	-	16,690,308
839	10,317	-	27,552	-	24,160	-	71,897
595,839	1,739,758	-	4,779,043	-	8,053,302	-	16,762,205
-	-	-	-	-	60,046	-	61,266
1,072,885	5,678,900	2,177,867	2,328,301	1,550,846	11,723,402	-	33,894,140
1,072,885	5,678,900	2,177,867	2,328,301	1,550,846	11,783,448	-	33,955,406
1,677,025	7,428,521	2,179,346	7,127,871	1,557,417	19,896,719	(822,283)	

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.

	71,897
Net position of governmental activities	<u>\$ 34,027,303</u>

Mental Health Disability Services  
of the East Central Region  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Year ended June 30, 2017

	Special Revenue,			
	Fiscal Agent	Benton County	Bremer County	Buchanan County
Revenues:				
Property and other county tax	\$ -	793,508	853,070	715,227
Intergovernmental revenues:				
State tax credits	-	70,291	69,318	64,777
Payments from member counties	18,719,383	-	-	-
Payments from MHDS fiscal agent to MHDS regional members	-	133,407	137,937	158,934
Other	57,502	-	-	-
Total intergovernmental revenues	18,776,885	203,698	207,255	223,711
Use of money and property	6,267	-	-	-
Miscellaneous	272,663	1,419	732	27
Total revenues	19,055,815	998,625	1,061,057	938,965
Expenditures:				
Services to persons with:				
Mental illness	12,574,730	34,949	5,064	24,152
Intellectual disabilities	1,037,830	4,972	-	2,452
Other developmental disabilities	779,999	-	-	3,503
Total direct services	14,392,559	39,921	5,064	30,107
General administration:				
Direct administration	26,496	95,584	133,508	127,854
Purchased administration	248,707	-	-	-
Distribution to MHDS regional fiscal agent	-	820,095	794,286	676,156
Fiscal agent reimbursement to member counties	2,734,483	-	-	-
Total general administration	3,009,686	915,679	927,794	804,010
Total mental health, intellectual disabilities and developmental disabilities expenditures	17,402,245	955,600	932,858	834,117
Excess of revenues over expenditures	1,653,570	43,025	128,199	104,848
Other financing sources: Sale of capital assets	-	-	-	-
Net change in fund balances	1,653,570	43,025	128,199	104,848
Fund balances beginning of year	1,062,412	1,967,251	1,890,834	2,513,020
Fund balances end of year	\$ 2,715,982	2,010,276	2,019,033	2,617,868

See notes to financial statements.

Mental Health Funds								
Delaware County	Dubuque County	Iowa County	Johnson County	Jones County	Linn County	Reclassification/ Elimination Entries	Total	
617,413	1,668,940	683,112	3,035,820	450,815	7,629,235	-	16,447,140	
52,727	160,816	58,122	197,146	39,375	648,881	-	1,361,453	
-	-	-	-	-	-	(18,719,383)	-	
298,465	253,409	75,198	808,952	173,151	-	(2,039,453)	-	
54	-	-	-	-	656,298	(642,720)	71,134	
351,246	414,225	133,320	1,006,098	212,526	1,305,179	(21,401,556)	1,432,587	
-	-	-	80	-	-	-	6,347	
454	1,883	-	5,906	13,674	110	(47,514)	249,354	
969,113	2,085,048	816,432	4,047,904	677,015	8,934,524	(21,449,070)	18,135,428	
87,527	57,122	7,010	428,649	68,557	127,401	-	13,415,161	
-	-	-	37,932	-	10,430	-	1,093,616	
46,890	-	-	54,190	-	-	-	884,582	
134,417	57,122	7,010	520,771	68,557	137,831	-	15,393,359	
165,851	190,682	61,047	316,668	103,071	539,758	-	1,760,519	
-	-	11,056	-	-	-	-	259,763	
576,349	3,096,360	526,131	4,571,683	657,188	6,996,339	(18,714,587)	-	
-	-	-	-	-	-	(2,734,483)	-	
742,200	3,287,042	598,234	4,888,351	760,259	7,536,097	(21,449,070)	2,020,282	
876,617	3,344,164	605,244	5,409,122	828,816	7,673,928	(21,449,070)	17,413,641	
92,496	(1,259,116)	211,188	(1,361,218)	(151,801)	1,260,596	-	721,787	
-	-	-	-	-	-	-	-	
92,496	(1,259,116)	211,188	(1,361,218)	(151,801)	1,260,596	-	721,787	
980,389	6,938,016	1,966,679	3,689,519	1,702,647	10,522,852	-	33,233,619	
1,072,885	5,678,900	2,177,867	2,328,301	1,550,846	11,783,448	-	33,955,406	

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities**

Amounts reported for governmental activities 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.	721,787
	(3,565)
<b>Change in net position of governmental activities</b>	<b>\$ 718,222</b>

Mental Health Disability Services  
of the East Central Region

Notes to Financial Statements

June 30, 2017

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

Mental Health Disability Services of the East Central Region (MHDS-ECR) is a jointly governed organization formed pursuant to the provisions of Chapter 28E of the Code of Iowa. MHDS-ECR includes the following member counties: Benton, Bremer, Buchanan, Delaware, Dubuque, Iowa, Johnson, Jones and Linn. 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.

MHDS-ECR's Regional Governance Board is comprised of at least one Board of Supervisors' member, or their designee, from each member county. The Regional Governance Board also includes two individuals who utilize mental health and disability services or are actively involved relative of such an individual who serve in a nonvoting ex officio capacity.

MHDS-ECR designated Jones County as the fiscal agent to account for all funds of the organization as permitted by Chapter 331.391 of the Code of Iowa.

Except as noted in the Independent Auditors Report, MHDS-ECR's 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 MHDS-ECR are intended to present the financial position and the changes in financial position of MHDS-ECR, which includes funds held by MHDS-ECR'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, MHDS-ECR has included all funds, organizations, agencies, commissions and authorities. MHDS-ECR 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 the MHDS-ECR are such that exclusion would cause MHDS-ECR's financial statement 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 MHDS-ECR 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 MHDS-ECR. MHDS-ECR 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 MHDS-ECR.

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. 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.

MHDS-ECR reports the following major governmental funds:

Special Revenue:

The Mental Health Fund (Fiscal Agent) is used to account for the activity of MHDS-ECR 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, MHDS-ECR considers revenues to be available if they are collected by MHDS-ECR 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 MHDS-ECR 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, MHDS-ECR 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 MHDS-ECR'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, MHDS-ECR's policy is to pay the expenditure from restricted fund balance and then from less-restrictive classifications – committed, assigned and then unassigned fund balances.

D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash and Pooled Investments – The cash balances of most MHDS-ECR funds are pooled and invested. Interest earned on investments is recorded either by the fiscal agent or in a member county Special Revenue, Mental Health Fund unless otherwise provided by law. Investments are stated at fair value except for 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 deferred 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, 2015 assessed property valuations; is for the tax accrual period July 1, 2016 through June 30, 2017 and reflects the tax asking contained in the budget certified by each member county Board of Supervisors in March 2016.

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 represents 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 Equity – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form.

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**

The MHDS-ECR's deposits in banks at June 30, 2017 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.

MHDS-ECR 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 the MHDS-ECR; 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.

MHDS-ECR 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 MHDS-ECR'S Regional Governance Board and each individual member county Board of Supervisors, MHDS-ECR's Chief Executive Officer, the Coordinators of Disability Services and all support staff of MHDS-ECR 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 MHDS-ECR.

The individual member county employees also accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Also, the individual member county employees are 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. MHDS-ECR's governmental activities financial statements do not report these amounts.

**(4) Risk Management**

MHDS-ECR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. MHDS-ECR assumed liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past year.



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

To the Regional Governance Board of Mental Health Disability Services of the East Central Region:

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 Mental Health Disability Services of the East Central Region (MHDS-ECR) as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, and have issued our report thereon dated June 21, 2018. 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. Our report includes a reference to other auditors who audited the Special Revenue, Mental Health Funds of Benton County, Bremer County, Buchanan County, Delaware County, Dubuque County, Iowa County, Johnson County and Linn County as described in our report on MHDS-ECR's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MHDS-ECR's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MHDS-ECR's internal control. Accordingly, we do not express an opinion on the effectiveness of MHDS-ECR's internal control.

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 deficiencies in internal control we consider to be a material weakness and a significant deficiency.

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 MHDS-ECR's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether MHDS-ECR'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.

Comments involving statutory and other legal matters about MHDS-ECR's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of MHDS-ECR. 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.

### MHDS-ECR's Responses to the Findings

MHDS-ECR's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. MHDS-ECR'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 MHDS-ECR's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering MHDS-ECR'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 MHDS-ECR 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.

  
MARY MOSIMAN, CPA  
Auditor of State

June 21, 2018

Mental Health Disability Services  
of the East Central Region

Schedule of Findings

Year ended June 30, 2017

**Finding Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Contract Payments – Provider Services

Criteria – The Mental Health Region enters into contracts with various service providers. These service providers submit claims to the Region for reimbursement in accordance with the contract and in accordance with funding authorizations. Each provider invoice is required to contain specific information for utilization review in accordance with the Service Provider Payment Provisions. The Service Provider Payment Provisions also state, when requested, attendance records and/or other documentation substantiating service provision is to be included.

Condition – During the year, the Region reimbursed a provider \$215,974 for community-based services provided in the MHDS Region. Supporting documentation consists of spreadsheets documenting recipient names, client identification numbers, procedure codes, service codes and service rates. Per discussion with Region officials, the spreadsheets are uploaded through the Iowa State Association of Counties Community Services Network using a secure log-in by the provider. However, the Region has not performed other procedures to substantiate the services have been provided.

Cause – The Regions' Management Plan does not include provisions for monitoring attendance records and/or other documentation to substantiate the services have been provided.

Effect – Lack of appropriate monitoring of provider claims for services could result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – To safeguard the public funds provided to the Region, the Region should implement additional procedures to periodically monitor attendance records and/or other documentation to ensure services submitted for reimbursement are being provided.

Response – The Region implemented a formal audit process for client-specific claims beginning in fiscal year 2018. A percentage of all claims submitted by each provider are audited each fiscal year. The providers are asked to send progress notes substantiating the claims for the specified time-period. A larger sample of claims for an individual provider is evaluated if the initial audit raises concerns. This deficit was noted on the fiscal year 2016 audit, but since the results of that audit were not received until late in fiscal year 2017, the new procedure was not in effect during fiscal year 2017. The written procedure has been provided to the auditor.

Conclusion – Response accepted.

Mental Health Disability Services  
of the East Central Region

Schedule of Findings

Year ended June 30, 2017

(B) Community Services Network Reconciliation

Criteria – An effective internal control system provides for internal controls related to reconciling mental health expenditure claims to amounts recorded to the Community Services Network (CSN) to ensure the accuracy of claims paid.

Condition – Although the Region had procedures in place to reconcile mental health expenditures claims to CSN, no evidence of the review of the reconciliation is documented.

Cause – Region policies do not require and procedures have not been established to require documentation of the review of the reconciliation of expenditure claims to CSN.

Effect – The lack of documentation of the review of the reconciliation process increases the probability errors in recording will go undetected.

Recommendation – The Region should establish procedures to ensure a reconciliation of mental health expenditures claims to CSN is completed and the review of the reconciliation documented.

Response – The Region currently reconciles between CSN and the auditor's expenditure report on a monthly basis. Beginning in fiscal year 2018, claims staff print the monthly expenditure report after completing the reconciliation process in CSN, ensure it matches the auditor's report, and sign and date the report. On a quarterly basis, the Financial Manager runs an independent report from CSN, compares it with the auditor's monthly report and then signs and dates that it is complete. This deficit was noted on the fiscal year 2016 audit, but since the results of that audit were not received until late in fiscal year 2017, the new procedure was not in effect during fiscal year 2017.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Mental Health Disability Services  
of the East Central Region

Schedule of Findings

Year ended June 30, 2017

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

- (1) Region Minutes – No transactions were found that we believe should have been approved in the MHDS-ECR minutes but were not.
- (2) Travel Expense – No disbursements of MHDS-ECR money for travel expenses of spouses of MHDS-ECR 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 MHDS-ECR's investment policy were noted.
- (4) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

Mental Health Disability Services  
of the East Central Region

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Jesse J. Probasco, CPA, Senior Auditor  
Erin M. Wittrock, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA  
Deputy Auditor of State