

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

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2008

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Mental Health and Recovery Board of Erie and Ottawa Counties, Erie County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2008 through December 31, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

Mary Taylor, CPA
Auditor of State

October 19, 2009

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MENTAL HEALTH AND RECOVERY BOARD
OF ERIE AND OTTAWA COUNTIES

FOR THE YEAR ENDED
DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2008 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Mental Health and Recovery Board of Erie and Ottawa Counties to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2008. Instead of the combined funds the accompanying financial statements present for 2008, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2008. While the Mental Health and Recovery Board of Erie and Ottawa Counties does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require certain governments to reformat their statements. The Mental Health and Recovery Board of Erie and Ottawa Counties has elected not to reformat its statements. Since the Mental Health and Recovery Board of Erie and Ottawa Counties does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

INDEPENDENT AUDITOR'S REPORT (continued)

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2008, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Mental Health and Recovery Board of Erie and Ottawa Counties as of December 31, 2008, and its combined cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Mental Health and Recovery Board of Erie and Ottawa Counties to include Management's Discussion and Analysis for the year ended December 31, 2008. The Mental Health and Recovery Board of Erie and Ottawa Counties has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2009 on our consideration of the Mental Health and Recovery Board of Erie and Ottawa Counties internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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 OMB Circular A-133, Audits of States, Local Government, and Non-Profit Organizations, and is not a required part of the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Varney, Fink & Associates

Varney, Fink and Associates, Inc.
Certified Public Accountants

September 29, 2009

Mental Health and Recovery Board of Erie and Ottawa Counties
Erie County
Combined Statement of Cash Receipts, Cash Disbursements and Changes
in Fund Cash Balances - All Governmental Fund Types
For the Year Ended December 31, 2008

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Local Taxes	\$3,247,787	\$0	\$3,247,787
Intergovernmental	5,855,267	643,308	6,498,575
Other Revenue	157,567	8,500	166,067
Total Cash Receipts	9,260,621	651,808	9,912,429
Cash Disbursements:			
Salaries and Benefits	478,616	0	478,616
Supplies	6,883	0	6,883
Equipment	10,025	0	10,025
Contracts - Repair	4,260	0	4,260
Contracts - Services	8,516,303	636,356	9,152,659
Rentals	12,315	0	12,315
Advertising and Printing	5,944	0	5,944
Travel	19,532	0	19,532
Public Employee's Retirement	54,634	0	54,634
Workers' Compensation	5,305	0	5,305
Other	94,800	0	94,800
Debt Service	102,335	0	102,335
Total Cash Disbursements	9,310,952	636,356	9,947,308
Total Receipts Over/(Under) Disbursements	(50,331)	15,452	(34,879)
Other Financing Sources:			
Commercial Loan Proceeds	88,418	0	88,418
Total Cash Receipts and Other Financing Sources Over Cash Disbursements	38,087	15,452	53,539
Fund Cash Balances - January 1, 2008	1,932,956	84,542	2,017,498
Fund Cash Balances - December 31, 2008	<u>\$1,971,043</u>	<u>\$99,994</u>	<u>\$2,071,037</u>

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

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

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

B. BASIS OF ACCOUNTING

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

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

C. CASH

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

D. FUND ACCOUNTING:

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

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

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

- ODADAS Block Grants Fund – This fund accounts for state and Federal grant monies to support projects for the development and implementation of prevention, treatment and rehabilitation activities directed to the diseases of alcohol and drug abuse.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. BUDGETARY PROCESS

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

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

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

ENCUMBRANCES - The Ohio Revised Code requires the Board to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled and reappropriated in the following fiscal year.

A summary of the 2008 budgetary activity appears in Note 2.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. UNPAID VACATION AND SICK LEAVE

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

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

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

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2008

NOTE 2 – BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2008 follows:

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$9,132,368	\$9,349,039	\$216,671
Special Revenue	566,266	651,808	85,542
Total	\$9,698,634	\$10,000,847	\$302,213

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,002,156	\$9,310,952	\$691,204
Special Revenue	645,714	636,356	9,358
Total	\$10,647,870	\$9,947,308	\$700,562

NOTE 3 - PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Board's district.

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

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

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 4 – DEBT

A commercial loan was originally obtained in 1998 to finance the purchase of property used by the Board for its administrative offices. The original loan was for \$135,000. This original loan was refinanced in both 2003 and 2008. The current loan is for \$88,418, with an interest rate of 7.90%, requiring 59 payments of \$1,074 through April 2013, and a final estimated payment due May 2013 of \$53,994. The outstanding principal at December 31, 2008 was \$83,746.

Amortization of the above debt, including \$26,096 of interest is as follows:

<u>Year</u>	<u>Total</u>
2009	\$12,888
2010	12,888
2011	12,888
2012	12,888
2013	58,290
	<u>\$109,842</u>

NOTE 5 – DEFINED BENEFIT PENSION PLANS

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contribute 10 percent of covered payroll.

The Board's contribution rate for 2008 was 14 percent. For 2008, 7 percent of the Board's contribution was allocated to fund the post-employment health care plan. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate of the Board of 14 percent.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 5 – DEFINED BENEFIT PENSION PLANS (Continued)

The Board's required contributions for pension obligations to the traditional plan for the years ended December 31, 2008, 2007, and 2006 were \$54,634, \$52,674, and \$50,488 respectively. The full amount has been contributed for 2008, 2007 and 2006.

NOTE 6 - POST-EMPLOYMENT BENEFITS

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

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten years or more of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 7 percent of covered payroll from January 1, 2008 to December 31, 2008.

The retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and coverage selected.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 – RISK MANAGEMENT

Commercial Insurance

The Board has obtained commercial insurance for the following risks:

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

NOTE 8 - CONTINGENT LIABILITIES

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

Mental Health and Recovery Board of Erie and Ottawa Counties
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2008

Federal Grantor Pass-Through Grantor/ Program Title	Pass-Through Identifying Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Safe and Drug-Free Schools and Communities - State Grant	22-06662-00-DFSCA-P-08-9069	84.186A	\$15,910
	22-06662-00-DFSCA-P-09-9069	84.186A	13,731
Total Safe and Drug-Free Schools and Communities - State Grant			<u>29,641</u>
Total U.S. Department of Education			<u>29,641</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Ohio Department of Mental Health:			
Promoting Safe and Stable Families	15-CS-08-01	93.556	41,555
	15-CS-09-01	93.556	5,086
Total Promoting Safe and Stable Families			<u>46,641</u>
Social Services Block Grant	MH-15-08	93.667	53,508
	MH-15-09	93.667	19,917
Total Social Services Block Grant			<u>73,425</u>
Medical Assistance Program	N/A	93.778	1,831,045
ARRA - Medical Assistance Program	N/A	93.778	99,890
Total Medical Assistance Program			<u>1,930,935</u>
Block Grants for Community Mental Health Services	BG-08	93.958	34,875
	BG-09	93.958	35,416
Total Block Grants for Community Mental Health Services			<u>70,291</u>
Passed Through Ohio Department of Alcohol and Drug Addiction Services:			
Medical Assistance Program	N/A	93.778	427,238
ARRA - Medical Assistance Program	N/A	93.778	18,645
Total Medical Assistance Program			<u>445,883</u>
Block Grants for Prevention and Treatment of Substance Abuse	FY08-FA/DBG&F/IVBG	93.959	248,171
	FY09-FA/DBG&F/IVBG	93.959	111,359
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>359,530</u>
Total U.S. Department of Health & Human Services			<u>2,926,705</u>
U.S. DEPARTMENT OF JUSTICE			
Criminal and Juvenile Justice and Mental Health Collaboration Program	2007-MO-BX-0018	16.745	46,177
Total U.S. Department of Justice			<u>46,177</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$3,002,523</u></u>

The notes to this Schedule are an integral part of this Schedule.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – SUB RECIPIENTS

The Board passes-through certain Federal assistance received from the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services to various agencies (sub recipients). As described in Note A, the Board records expenditures of Federal awards to sub recipients when paid in cash.

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

NOTE C – MATCHING REQUIREMENTS

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

**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***

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

To the Board of Trustees:

We have audited the financial statements of the Mental Health and Recovery Board of Erie and Ottawa Counties, as of and for the year ended December 31, 2008, and have issued our report thereon dated September 29, 2009, wherein we noted the Mental Health and Recovery Board of Erie and Ottawa Counties followed accounting practices the Auditor of State prescribes rather than the accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mental Health and Recovery Board of Erie and Ottawa Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mental Health and Recovery Board of Erie and Ottawa Counties' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mental Health and Recovery Board of Erie and Ottawa Counties' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mental Health and Recovery Board of Erie and Ottawa Counties ability to initiate, authorize, record, process, or report financial data reliably in accordance with the basis of accounting prescribed by the Auditor of State such that there is more than a remote likelihood that a misstatement of the Mental Health and Recovery Board of Erie and Ottawa Counties financial statements that is more than inconsequential will not be prevented or detected by the Mental Health and Recovery Board of Erie and Ottawa Counties internal control.

Mental Health and Recovery Board of Erie and Ottawa Counties
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*

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We consider the deficiency described in the accompanying schedule of findings as item 2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mental Health and Recovery Board of Erie and Ottawa Counties' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2008-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mental Health and Recovery Board of Erie and Ottawa Counties' financial statements are free of 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 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*.

We noted a certain matter that we reported to management of the Mental Health and Recovery Board of Erie and Ottawa Counties in a separate letter dated September 29, 2009.

The Mental Health and Recovery Board of Erie and Ottawa Counties' response to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Mental Health and Recovery Board of Erie and Ottawa Counties' responses and, accordingly, we express no opinion on them.

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

Varney, Fink & Associates

VARNEY, FINK and ASSOCIATES, INC.
Certified Public Accountants

September 29, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

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

Compliance

To the Board of Trustees:

We have audited the compliance of the Mental Health and Recovery Board of Erie and Ottawa Counties with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The Mental Health and Recovery Board of Erie and Ottawa Counties' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Mental Health and Recovery Board of Erie and Ottawa Counties' management. Our responsibility is to express an opinion on the Mental Health and Recovery Board of Erie and Ottawa Counties' compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Mental Health and Recovery Board of Erie and Ottawa Counties' 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. Our audit does not provide a legal determination on the Mental Health and Recovery Board of Erie and Ottawa Counties' compliance with those requirements.

In our opinion, the Mental Health and Recovery Board of Erie and Ottawa Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

**Report on Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
In Accordance with OMB CIRCULAR A-133**

Page 2

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Varney, Fink & Associates

VARNEY, FINK and ASSOCIATES, INC.
Certified Public Accountants

September 29, 2009

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
(CONTINUED)**

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

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

Finding 2008-01 Significant Deficiency/Material Weakness

Financial Statements Adjustments

Sound financial reporting is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The following audit adjustments were made to the December 13, 2008 financial statements:

- A loan was refinanced, however, the proceeds of the new loan and payment of the original loan for \$88,418 was not recorded on the financial statements
- Reclassifications to properly record activity have been made by the Board as follows:
 - Intergovernmental receipts of \$377,492 were recorded as local taxes
 - Homestead and rollback receipts of \$200,589 were reported as other receipts rather than intergovernmental receipts.
- Tax Receipts were booked at net rather than recording at gross and recording a disbursement of \$25,753.

The fiscal officer should review the adjustments and reclassification discussed above to ensure that similar errors are not reported on financial statements in subsequent years.

Officials Response:

These recommended adjustments will be monitored and recorded appropriately in the future. All receipts will be double checked at year end to verify they were reported correctly on all financial statements.

MENTAL HEALTH AND RECOVERY BOARD OF
ERIE AND OTTAWA COUNTIES

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
(CONTINUED)

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

None

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

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; Explain</u>
2007-01	Section 5705.41 ORC Budgetary expenditures exceeding appropriations	Yes	Finding No Longer Valid
2007-02	Significant deficiency/material weakness – adjustments to financial statements required	Partially Corrected	Reissued as Finding 2008-01



Mary Taylor, CPA
Auditor of State

MENTAL HEALTH AND RECOVERY BOARD OF ERIE AND OTTAWA COUNTIES

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 5, 2009**