



## **Exit Conference:**

### **North Sound Behavioral Health Administrative Services Organization**

The Office of the Washington State Auditor's vision is increased trust in government. Our mission is to provide citizens with independent and transparent examinations of how state and local governments use public funds, and develop strategies that make government more efficient and effective.

The purpose of this meeting is to share the results of your audit and our draft reporting. We value and appreciate your participation.

#### **Audit Reports**

We will publish the following reports:

- Accountability audit for January 1, 2020 through December 31, 2021 – see draft report.
- Financial statement and federal grant compliance audits for January 1, 2021 through December 31, 2021 – see draft report.

#### **Audit Highlights**

As the current health pandemic continues, we again performed the audit remotely. We greatly appreciate the Organization's collaboration and communication as we navigated the best ways to approach the necessary audit procedures with the health and safety of everyone in mind.

#### **Recommendations not included in the Audit Reports**

##### **Exit Items**

We have provided exit recommendations for management's consideration. Exit items address control deficiencies or non-compliance with laws or regulation that have an insignificant or immaterial effect on the entity, or errors with an immaterial effect on the financial statements. Exit items are not referenced in the audit report.

#### **Financial Statement Audit Communication**

We would like to bring the following to your attention:

- There were no uncorrected misstatements in the audited financial statements.
- The audit addressed the following risks, which required special consideration:
  - Due to the possibility that management may be able to circumvent certain controls, standards require the auditor to assess the risk of management override.

#### **Finalizing Your Audit**

##### **Report Publication**

Audit reports are published on our website and distributed via e-mail in an electronic .pdf file. We also offer a subscription service that allows you to be notified by email when audit reports are released or posted to our website. You can sign up for this convenient service at: <https://portal.sao.wa.gov/SAOPortal>.

### **Management Representation Letter**

We have included a copy of representations requested of management.

### **Audit Cost**

At the entrance conference, we estimated the cost of the audit to be \$55,000, and actual audit costs will approximate that amount.

### **Your Next Scheduled Audit**

Your next audit is scheduled to be conducted in 2023 and will cover the following general areas:

- Financial Statement
- Federal Programs

The estimated cost for the next audit based on current rates is \$54,000, plus travel expenses, if any. This preliminary estimate is provided as a budgeting tool and not a guarantee of final cost.

These estimates are based on timely access to financial information and no significant audit reporting issues. The estimated cost and completion date may change if unforeseen issues arise or if significant audit issues are identified necessitating additional audit work.

### **Working Together to Improve Government**

#### **Audit Survey**

When your report is released you will receive an audit survey from us. We value your opinions on our audit services and hope you provide feedback.

#### **Local Government Support Team**

This team provides support services to local governments through technical assistance, comparative statistics, training, and tools to help prevent and detect a loss of public funds. Our website and client portal offers many resources, including a client Help Desk that answers auditing and accounting questions. Additionally this team assists with the online filing of your financial statements.

#### **The Center for Government Innovation**

The Center for Government Innovation of the Office of the Washington State Auditor is designed to offer services specifically to help you help the residents you serve at no additional cost to your government. What does this mean? We provide expert advice in areas like Lean, peer-to-peer networking and culture-building to help local governments find ways to be more efficient, effective and transparent. The Center can help you by providing assistance in financial management, cybersecurity and more. Check out our best practices and other resources that help local governments act on accounting standard changes, comply with regulations, and respond to recommendations in your audit. The Center understands that time is your most precious commodity as a public servant, and we are here to help you do more with the limited hours you have. If you are interested in learning

how we can help you maximize your effect in government, call us at (564) 999-0818 or email us at [Center@sao.wa.gov](mailto:Center@sao.wa.gov).

### **Questions?**

Please contact us with any questions about information in this document or related audit reports.

**Kelly Collins, CPA, CFE, Director of Local Audit, (564) 999-0807 or [Kelly.Collins@sao.wa.gov](mailto:Kelly.Collins@sao.wa.gov)**

**Wendy Choy, Assistant Director of Local Audit, (425) 502-7067 or [Wendy.Choy@sao.wa.gov](mailto:Wendy.Choy@sao.wa.gov)**

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# Accountability Audit Report

## North Sound Behavioral Health Administrative Services Organization

For the period January 1, 2020 through December 31, 2021

*Published (Inserted by OS)*

Report No. 1031629



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**Office of the Washington State Auditor  
Pat McCarthy**

Issue Date – (Inserted by OS)

Board of Directors  
North Sound Behavioral Health Administrative Services Organization  
Mount Vernon, Washington

**Report on Accountability**

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Organization operations. This information is valuable to management, the governing body and public stakeholders when assessing the government’s stewardship of public resources.

Attached is our independent audit report on the Organization’s compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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# AUDIT RESULTS

## Results in brief

This report describes the overall results and conclusions for the areas we examined. In those selected areas, Organization operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over the safeguarding of public resources.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

## About the audit

This report contains the results of our independent accountability audit of North Sound Behavioral Health Administrative Services Organization from January 1, 2020 through December 31, 2021.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the Organization's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2021 and 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts payable – general disbursements
- Final closeout payments – reviewing to ensure compliance with guidance from the Health Care Authority
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress



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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### North Sound Behavioral Health Administrative Services Organization January 1, 2020 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2018 through December 31, 2019	<b>Report Ref. No.:</b> 1027817	<b>Finding Ref. No.:</b> 2019-001
<b>Finding Caption:</b> North Sound made additional compensation and facility cost payments that did not align with the state Constitution and guidance from the Health Care Authority.		
<b>Background:</b> North Sound Behavioral Health Organization transitioned to North Sound Behavioral Health Administrative Services Organization (North Sound) on July 1, 2019. <ul style="list-style-type: none"> <li>• Our audit reviewed disbursements of North Sound, including those related to the spend-down plan, and noted the following concerns: North Sound contracted with all employees to provide retention incentive payments with the expectation that staff stayed through the transition to a BH-ASO. This additional compensation was paid both to employees who had accepted positions with the BH-ASO and those who had not. Employment terms did not substantially change for those who had accepted positions after the transition, and therefore the additional compensation was not allowable.</li> <li>• North Sound prepaid the second half of 2019 and the entire period of 2020 rent for its administrative office building. However, under the spend-down guidance from HCA, BHO reserves must be directly related to support closeout activities and may not be used to pay for services provided beyond the end of the contract period, especially start-up or operational costs of the BH-ASO.</li> </ul>		
<b>Status of Corrective Action: (check one)</b>		
<input checked="" type="checkbox"/> Fully Corrected	<input type="checkbox"/> Partially Corrected	<input type="checkbox"/> Not Corrected
		<input type="checkbox"/> Finding is considered no longer valid



**Corrective Action Taken:**

*North Sound BHO and HCA resolved the outstanding issues noted above. A letter dated July 16, 2021 from HCA indicated the following: “HCA met internally and has carefully reviewed all the information received. In addition to reviewing the documentation, HCA has also considered North Sound’s good faith efforts in collaboratively working to resolve the outstanding closeout issues. Therefore, based on careful consideration, HCA will not request North Sound to pay back this amount as part of their closeout process. HCA will expect that the BHO financial statements accurately reflect with information.” It is understood by HCA and the BHO the matter is resolved and closed.*

## RELATED REPORTS

### Financial

Our opinion on the Organization’s financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the Organization’s financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

That report includes a finding for a material weakness in internal controls over financial reporting regarding preparation and review of financial statements.

### Federal grant programs

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the Organization’s major federal programs, which are listed in the Schedule of Findings and Questioned Costs section of the separate financial statement and single audit report. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

## INFORMATION ABOUT THE ORGANIZATION

The North Sound Regional Support Network was formed in 1989 through an interlocal agreement created with five neighboring counties: Island, San Juan, Whatcom, Skagit, and Snohomish. The Network does business as the North Sound Mental Health Administration and contracts with vendors and other agencies to coordinate and provide mental health services to individuals within the area.

In February 2016, the North Sound Regional Support Network became North Sound Behavioral Health Organization LLC. On April 1, 2016, the North Sound Behavioral Health Organization took over the responsibility of operating the Substances Use Disorder service system previously run by the state and counties. On June 30, 2019, the Medicaid portion of its contract ended, and on July 1, 2019, it became the North Sound Behavioral Health Administrative Services Organization (North Sound BH-ASO).

The North Sound BH-ASO is governed by a Board of Directors consisting of nine elected members, three tribal representatives and two advisory Board members from entities included in the interlocal agreement. The Board hires an Executive Director to oversee its daily operations, as well as its 23 employees. During fiscal years 2020 and 2021, the North Sound BH-ASO reported operating expenditures of \$25.8 million and \$29.8 million, respectively.

Contact information related to this report	
Address:	North Sound Behavioral Health Administrative Services Organization 2021 E. College Way, Suite 101 Mount Vernon, WA 98273
Contact:	Darrell Heiner, Senior Accountant
Telephone:	(360) 419-5652
Website:	<a href="http://www.nsbhaso.org">www.nsbhaso.org</a>

*Information current as of report publish date.*

### Audit history

You can find current and past audit reports for the North Sound Behavioral Health Administrative Services Organization at <http://portal.sao.wa.gov/ReportSearch>.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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### Other ways to stay in touch

- Main telephone:  
(564) 999-0950
- Toll-free Citizen Hotline:  
(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)



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## **Financial Statements and Federal Single Audit Report**

# **North Sound Behavioral Health Administrative Services Organization**

**For the period January 1, 2021 through December 31, 2021**

*Published (Inserted by OS)*

Report No. 1031588



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**Office of the Washington State Auditor  
Pat McCarthy**

Issue Date – (Inserted by OS)

Board of Directors  
North Sound Behavioral Health Administrative Services Organization  
Mount Vernon, Washington

**Report on Financial Statements and Federal Single Audit**

Please find attached our report on North Sound Behavioral Health Administrative Services Organization's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the Organization's financial condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of North Sound Behavioral Health Administrative Services Organization are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities and each major fund in accordance with accounting principles generally accepted in the United States of America (GAAP).

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Organization.

#### Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Organization’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

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## Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
93.665	COVID-19 – Emergency Grants to Address Mental and Substance Use Disorders During COVID-19
93.958	Block Grants for Community Mental Health Services
93.958	COVID-19 – Block Grants for Community Mental Health Services

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The Organization qualified as a low-risk auditee under the Uniform Guidance.

## SECTION II – FINANCIAL STATEMENT FINDINGS

See Finding 2021-001.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

## SCHEDULE OF AUDIT FINDINGS AND RESPONSES

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

#### 2021-001 The Organization lacked adequate internal controls for ensuring accurate financial reporting.

##### *Background*

State and federal agencies, the Board of Directors, and the public rely on information included in the Organization's financial statements and reports to make decisions. Management is responsible for designing and following internal controls that provide reasonable assurance the Organization's financial reporting is reliable, and the financial statements and notes to financial statements are accurate.

The Organization prepares its financial statements in accordance with generally accepted accounting principles (GAAP). Our audit found deficiencies in internal controls over accounting and financial reporting that affected the Organization's ability to produce reliable financial statements. *Government Auditing Standards* requires the State Auditor's Office to communicate material weaknesses as a finding.

##### *Description of Condition*

The Organization did not appropriately evaluate its net position classifications to ensure they were accurately reported and agreed with underlying accounting records. In addition, the year-end review that staff performed was insufficient for identifying the misstatements and correcting them timely. We found the Organization:

- Correctly calculated pension-related balances, but incorrectly reported the amount for deferred inflows on the Statement of Net Position.
- Did not evaluate its net position and fund balance to ensure all amounts with external restrictions were reported as restricted in accordance with GAAP. The Organization is required to submit monthly reports to the Washington State Health Care Authority on how it has used each funding source separately. When preparing the financial statements, the Organization did not take the restricted nature of the funds into consideration when determining the net position and fund balance classifications to present.

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### *Cause of Condition*

Over the last couple of years, the Organization experienced turnover in positions responsible for preparing the financial statements. As a result, staff responsible for preparing and reviewing the financial statements did not allocate adequate resources and time to ensure they were accurate and in compliance with GAAP reporting requirements.

### *Effect of Condition*

The Organization incorrectly reported its net position and fund balance classifications as follows:

- The Organization reported \$599,332 for deferred inflows related to pensions on the Statement of Net Position when it should have reported \$1,692,765. This caused the total net position amounts on the Statement of Net Position and Statement of Activities to not agree. It also resulted in the Organization overstating its Unrestricted Net Position by \$1,093,443.
- The Organization understated its restricted net position on the Statement of Net Position and restricted fund balance on the Governmental Funds Balance Sheet both by 6,774,961. This understatement occurred because the Organization incorrectly included these amounts in the unrestricted balances.

The Organization corrected these errors in the financial statements.

### *Recommendation*

We recommend the Organization strengthen its internal controls over preparing and reviewing the financial statements to ensure the statements submitted for audit are accurate, complete and comply with GAAP. We also recommend the Organization dedicate sufficient resources and provide adequate training so staff have the technical knowledge necessary to understand and identify the correct reporting of the Organization's financial activities.

### *Organization's Response*

*We agree with the Auditor's findings.*

*The deferred inflows issue should have been caught during the financial statement review. The restricted fund balance issue developed over time, we have gotten proviso funds for years and never reported them as restricted because they weren't tracked separately, tracking them is a recent development and when we took a*

*closer look during the recent audit, we agree that they now meet the definition of restricted.*

*We believe our corrective action plan will address both issues by bringing on an additional Accountant to assist with the financial statement development and review process.*

### ***Auditor's Remarks***

We appreciate the Organization's commitment to resolve the finding and thank the Organization for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

### ***Applicable Laws and Regulations***

*Government Auditing Standards*, July 2018 Revision, paragraphs 6.40 and 6.41 establish reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud, and noncompliance with provisions of laws, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

*The Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for all local governments.



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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2020 through December 31, 2020	<b>Report Ref. No.:</b> 1029642	<b>Finding Ref. No.:</b> 2020-001	<b>CFDA Number(s):</b> 93.959
<b>Federal Program Name and Granting Agency:</b> Block Grants for Prevention and Treatment of Substance Abuse, U.S. Department of Health and Human Services		<b>Pass-Through Agency Name:</b> Washington Health Care Authority	
<b>Finding Caption:</b> The Organization improperly charged the program for expenditures incurred outside the performance period.			
<b>Background:</b> Federal regulations require every subaward to specify the period of performance start and end date. Eligible program costs must be incurred during that time period. The contract between the Washington Health Care Authority and the Organization specified the period of performance for this award was July 1, 2020, through June 30, 2021. The Organization had adequate internal controls for ensuring it materially complied with the period of performance requirement. However, due to an oversight in the year-end accrual process, the Organization charged the program \$29,704 for subrecipient expenses incurred between November 2019 and June 2020, which was before the performance period.			
<b>Status of Corrective Action: (check one)</b> <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid			
<b>Corrective Action Taken:</b> <i>The invoicing error was corrected and an extra level of review was added to the billing process going forward.</i>			

## INDEPENDENT AUDITOR'S REPORT

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*

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

Board of Directors  
North Sound Behavioral Health Administrative Services Organization  
Mount Vernon, Washington

We have audited, 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, the financial statements of the governmental activities and each major fund of North Sound Behavioral Health Administrative Services Organization, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated December 8, 2022.

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization'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 above 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 were not identified. We identified certain deficiencies in internal control, as described in the accompanying Schedule of Audit Findings and Responses as Finding 2021-001 to be material weaknesses.

## REPORT ON COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

## ORGANIZATION’S RESPONSE TO FINDINGS

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization’s response to the findings identified in our audit and described in the accompanying Schedule of Audit Findings and Responses. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

December 8, 2022



## INDEPENDENT AUDITOR'S REPORT

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

Board of Directors  
North Sound Behavioral Health Administrative Services Organization  
Mount Vernon, Washington

## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

### Opinion on Each Major Federal Program

We have audited the compliance of North Sound Behavioral Health Administrative Services Organization, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2021. The Organization's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

### Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal

determination on the Organization’s compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization’s federal programs.

### **Auditor’s Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization’s compliance with the requirements of each major federal program as a whole.

Performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances;
- Obtain an understanding of the Organization’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over compliance. Accordingly, no such opinion is expressed; and
-

- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

### Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

December 8, 2022

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021**

Board of Directors  
North Sound Behavioral Health Administrative Services Organization  
Mount Vernon, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinions**

We have audited the accompanying financial statements of the governmental activities and each major fund of North Sound Behavioral Health Administrative Services Organization, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of North Sound Behavioral Health Administrative Services Organization, as of December 31, 2021, and the respective changes in financial position thereof, and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;



- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This supplementary information is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022 on our consideration of the Organization’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 Organization’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 the Organization’s internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

December 8, 2022



## FINANCIAL SECTION

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

#### REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

#### BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Activities – 2021

Balance Sheet Governmental Funds – 2021

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net  
Position – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2021

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities – 2021

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual  
– General Fund – 2021

Notes to Financial Statements – 2021

#### REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –  
2021

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2021

#### SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2021

Notes to the Schedule of Expenditures of Federal Awards – 2021

Preliminary Draft - Please do not duplicate, distribute, or disclose.



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 2021 E. College Way, Suite 101, Mt. Vernon, WA 98273  
 Phone: (360) 416-7013 Fax: (360) 899-4754  
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## CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

### North Sound Behavioral Health Administrative Services Organization January 1, 2021 through December 31, 2021

This schedule presents the corrective action planned by the Organization for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

<b>Finding ref number:</b> 2021-001	<b>Finding caption:</b> The Organization lacked adequate internal controls for ensuring accurate financial reporting.
<b>Name, address, and telephone of Organization contact person:</b> Darrell Heiner, Senior Accountant North Sound Behavioral Health Administrative Services Organization 2021 E. College Way, Suite 101 Mount Vernon, WA 98273 Phone: 360-419-5652	
<b>Corrective action the auditee plans to take in response to the finding:</b> <i>We have hired an additional Accountant who starts on December 1<sup>st</sup>, 2022, this will strengthen our review process and should help to avoid these types of errors in the future. A priority for this position will be to review financial statements; both Accountants will review the Auditor's recommended guidance.</i>	
<b>Anticipated date to complete the corrective action:</b> December 1, 2022	

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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(866) 902-3900
- Email:  
[webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov)

## **LETTER OF REPRESENTATION TO BE TYPED ON CLIENT LETTERHEAD**

December 8, 2022

Office of the Washington State Auditor  
11 Bellwether Way, Suite 211  
Bellingham, WA 98225

To the Office of the Washington State Auditor:

We are providing this letter in connection with your audit of North Sound Behavioral Health Administrative Service Organization for the period from January 1, 2020 through December 31, 2021. Representations are in relation to matters existing during or subsequent to the audit period up to the date of this letter.

Certain representations in this letter are described as being limited to matters that are significant or material. Information is considered significant or material if it is probable that it would change or influence the judgment of a reasonable person.

We confirm, to the best of our knowledge and belief, having made appropriate inquiries to be able to provide our representations, the following representations made to you during your audit. If we subsequently discover information that would change our representations related to this period, we will notify you in a timely manner.

### **General Representations:**

1. We have provided you with unrestricted access to people you wished to speak with and made available all requested and relevant information of which we are aware, including:
  - a. Financial records and related data.
  - b. Minutes of the meetings of the governing body or summaries of actions of recent meetings for which minutes have not yet been prepared.
  - c. Other internal or external audits, examinations, investigations or studies that might concern the objectives of the audit and the corrective action taken to address significant findings and recommendations.
  - d. Communications from regulatory agencies, government representatives or others concerning possible noncompliance, deficiencies in internal control or other matters that might concern the objectives of the audit.
  - e. Related party relationships and transactions.
  - f. Results of our internal assessment of business risks and risks related to financial reporting, compliance and fraud.

2. We acknowledge our responsibility for compliance with requirements related to confidentiality of certain information, and have notified you whenever records or data containing information subject to any confidentiality requirements were made available.
3. We acknowledge our responsibility for compliance with applicable laws, regulations, contracts and grant agreements.
4. We have identified and disclosed all laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
5. We have complied with all material aspects of laws, regulations, contracts and grant agreements.
6. We acknowledge our responsibility for establishing and maintaining effective internal controls over compliance with applicable laws and regulations and safeguarding of public resources, including controls to prevent and detect fraud.
7. We have established adequate procedures and controls to provide reasonable assurance of safeguarding public resources and compliance with applicable laws and regulations.
8. We have no knowledge of any loss of public funds or assets or other illegal activity, or any allegations of fraud or suspected fraud involving management or employees.
9. In accordance with RCW 43.09.200, all transactions have been properly recorded in the financial records.
10. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings, and we have provided you with all the information on the status of the follow-up on prior audit findings.
11. We are responsible for taking corrective action on audit findings and have developed a corrective action plan.

**Additional representations related to the financial statements:**

12. We acknowledge our responsibility for fair presentation of financial statements and believe financial statements are fairly presented in conformity with generally accepted accounting principles in the United States of America.
13. We acknowledge our responsibility for establishing and maintaining effective internal control over financial reporting.
14. The financial statements include financial information of the primary government and all component units, fiduciary and other activity required by generally accepted accounting principles to be included in the financial reporting entity.
15. The financial statements properly classify all funds and activities.

16. All funds that meet the quantitative criteria in GASB requirements or are otherwise particularly important to financial statement users, are presented as major funds.
17. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported and depreciated as applicable.
18. We have no plans or intentions that may materially affect the reported value or classification of assets, liabilities or net position.
19. Revenues are appropriately classified by fund and account.
20. Expenses have been appropriately classified by fund and account, and allocations have been made on a reasonable basis.
21. Net position components (net investment in capital assets, restricted and unrestricted) and fund balance components (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, as applicable, approved.
22. Significant assumptions we used in making accounting estimates are reasonable.
23. The following have been properly classified, reported and disclosed in the financial statements, as applicable:
  - a. Interfund, internal, and intra-entity activity and balances.
  - b. Related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - c. Joint ventures and other related organizations.
  - d. Guarantees under which the government is contingently liable.
  - e. All events occurring subsequent to the fiscal year end through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
  - f. Effects of all known actual or possible litigation, claims, assessments, violations of laws, regulations, contracts or grant agreements, and other loss contingencies.
24. We have accurately disclosed to you all known actual or possible pending or threatened litigation, claims or assessments whose effects should be considered when preparing the financial statements. We have also accurately disclosed to you the nature and extent of our consultation with outside attorneys concerning litigation, claims and assessments.
25. We acknowledge our responsibility for reporting supplementary information (the Schedule of Expenditures of Federal Awards) in accordance with applicable requirements and believe supplementary information is fairly presented, in both form and content in accordance with those requirements.

26. We have disclosed to you all significant changes to the methods of measurement and presentation of supplementary information, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation.
27. We acknowledge our responsibility for the supplementary information required by generally accepted accounting principles in the United States (RSI) and believe RSI is measured and presented within prescribed guidelines.
28. We have disclosed to you all significant changes in the methods of measurement and presentation of RSI, reasons for any changes and all significant assumptions or interpretations underlying the measurement or presentation of the RSI.
29. We believe there are no uncorrected misstatements that would be material individually and in the aggregate to each applicable opinion unit.
30. We acknowledge our responsibility not to publish any document containing the audit report with any change in the financial statements, supplementary and other information referenced in the auditor's report. We will contact the auditor if we have any needs for publishing the audit report with different content included.

**Additional representations related to expenditures under federal grant programs:**

31. We acknowledge our responsibility for complying, and have complied, with the requirements of 2 CFR § 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*.
32. With regards to your audit of federal grant programs, we have made available all relevant and requested information of which we are aware, including:
  - a. All federal awards and related grant agreements (including amendments, if any), contracts with pass-through entities, service organizations and vendors, and correspondence.
  - b. All communications from federal awarding agencies, vendors, service organizations or pass-through entities concerning possible noncompliance.
  - c. All information regarding corrective actions taken and management decisions or follow-up work performed by federal or pass-through agencies on any findings reported in the past.
  - d. All documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
  - e. Interpretations or other support for any situations where compliance with requirements might be questionable or unclear.
33. We have identified and complied with all direct and material compliance requirements of federal awards.

34. Management is responsible for establishing effective internal control and has maintained sufficient control over federal programs to provide reasonable assurance that awards are managed in compliance with laws, regulations, contracts or grant agreements that could have a material effect on each of our federal awards.
35. Federal program financial reports and claims for advances and reimbursements are supported by the accounting records from which the basic financial statements have been prepared, and are prepared on a basis consistent with the Schedule of Expenditures of Federal Awards.
36. Copies of federal program reports provided to you are true copies of the reports submitted, or electronically transmitted, to federal agencies or pass-through agencies, as applicable.
37. We are responsible for, and will accurately prepare, the auditee section of the Data Collection Form as required by the Uniform Guidance.

**Additional representations related to federal grants passed through to subrecipients:**

38. We have advised our subrecipients of requirements imposed on them by Federal laws, regulations, contracts or grant agreements as well as any supplemental requirements we impose as a condition of receiving Federal awards.
39. We have monitored the activities of our subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, contracts or grant agreements.
40. We have determined that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of 2 CFR § 200.501 for that fiscal year.
41. When applicable, we have issued a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensured that the subrecipient has taken appropriate and timely corrective action.
42. We have considered the results of our subrecipients' audits and made any necessary adjustments to our own accounting records.

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Joe Valentine  
Executive Director

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Darrell Heiner  
Senior Accountant