

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY (“CalMHSA”)

FINANCIAL STATEMENTS

June 30, 2021

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
Sacramento, CA

June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California Mental Health Services Authority
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the California Mental Health Services Authority, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the California Mental Health Services Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the California Mental Health Services Authority, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 to the financial statements, during the year ended June 30, 2021, California Mental Health Services Authority adopted new accounting guidance, GASB Statement No. 84, Fiduciary Activities, which resulted in the addition of activities identified as custodial funds for the Presumptive Transfer and Loan Forgiveness program. The new accounting guidance also resulted in a restatement of the July 1, 2020 governmental activities net position in the amount of \$601,732, general fund in the amount of \$601,372, and fiduciary funds in the amount of \$2,921,269. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Budgetary Comparison Schedule General Fund, identified as required supplementary information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2022 on our consideration of California Mental Health Services Authority'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 California Mental Health Services Authority'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 California Mental Health Services Authority's internal control over financial reporting and compliance.



Crowe LLP

Costa Mesa, California
January 4, 2022

Management Discussion and Analysis

Management of California Mental Health Services Authority (“CalMHSA”) is pleased to present the following discussion and analysis that provides an overview of the financial position and activities of CalMHSA for the fiscal year ended June 30, 2021. The discussion should be read in conjunction with the financial statements and accompanying notes, which follow this section.

Overview of CalMHSA

CalMHSA is an independent administrative and fiscal government agency focused on the efficient delivery of California mental health projects. On June 11, 2009, six California counties established CalMHSA as a Joint Powers Authority (JPA) to jointly develop, fund and implement mental/behavioral health projects and educational programs at the state, regional and local levels. California county members can act alone or in collaboration, to participate in the statewide Prevention and Early Intervention (PEI) projects, Innovative Technology projects, contract and/or negotiate with State or other providers for mental hospital beds, contract and/or negotiate with the State or federal government for administration of mental health services, operate program risk pools, technical assistance and capacity building program, workforce education training program, and other projects as deemed appropriate.

CalMHSA is headed by a separate Board of Member Counties and an Executive Committee comprised of officers and Statewide Regional Representatives. It employed the administrative firm, specializing in JPA management, of George Hills Company, Inc., which was terminated. Effective Nov 1, 2020, CalMHSA is independently operating and managing its entity, with its own staff and management, CalMHSA. CalMHSA operates within the statutes governing Joint Powers Agreement entities and complies with the Brown Act open meeting requirements.

As of June 30, 2021, 58 members (56 counties, one city and one JPA) work together to develop, fund programs that include, but not limited to, prevention and early intervention, State or other mental hospital beds and similar related services, State or federal government for administration of mental health services, programs or activities including but not limited to the Drug Medi-Cal Treatment Program, managed mental health care, delivery of specialty mental health services; operate program risk pools; provide any other similar or related fiscal or administrative services that would be of value to Members such as group purchasing, contract management, research and development, data management, maintenance of a research depository, training, technical assistance; capacity building; education and training; research, develop, and execute any appropriate policy request from the California State Association of Counties (CSAC) or its affiliates, on a statewide, regional or local level.

Background

In 2004, California voters passed Proposition 63 (The Mental Health Services Act) (MHSA), landmark legislation that created an ongoing funding source and a framework for transforming California’s traditional community mental health system into a system equipped to support prevention and wellness, and on addressing the unmet needs of California’s diverse and underserved population groups with culturally relevant and effective services and education. In 2007, the Mental Health Services Oversight & Accountability Commission (MHSOAC), which was created as a stipulation of the MHSA to oversee the management of these funds, approved a one-time investment of \$160 million over four-years. Three strategic initiatives were identified through a stakeholder process and approved by the MHSOAC in May 2008, for the distribution of this one-time allocation: \$40 million for Suicide Prevention (SP), \$60 million for Student Mental Health (SMH), and \$60 million for Stigma and Discrimination Reduction (SDR). On April 15, 2010, CalMHSA executed a contract with the California Department of Mental Health (CDMH) for the amount not to exceed \$160 million. The term of this contract was through June 30, 2014.

Sustainability - Phase I & Phase II

As the end of the four-year period approached, the CalMHSA Board of Directors adopted a two-phase planning strategy for continuing the investment in statewide Prevention and Early Intervention (PEI) efforts. In April 2014, the CalMHSA Board approved a Phase I Funding Plan to sustain the existing Statewide PEI projects through June 30, 2015. Phase I was recognized as a short-term sustainability solution for the purpose of providing program partners with additional time to successfully complete their activities and deliverables, and to reduce the risk of any adverse consequences of discontinuing activities (e.g., the ability to measure long-term impact). In August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects through June 30, 2017. Funding for Phase I and Phase II is derived from current county members committing a range of 1% to 7% funding from their local PEI funds in addition to CalMHSA seeking other funding to include state and federal resources.

Sustainability - Phase III

Through implementation of the Phase III CalMHSA Statewide PEI Project Plan, CalMHSA and its member counties embarked on the 7th year of PEI Project activities. In December 2016, the CalMHSA Board approved a Phase III Funding Plan for purpose of continuing work related to PEI projects through June 30, 2020. Funding for Phase III is derived from current county members committing up to 4% of their annual PEI funds to CalMHSA on an annual basis for 3 years.

2020/2021 Program Highlights

Prevention and Early Intervention (PEI) Projects

In FY 2020-2021, the Statewide Prevention and Early Intervention (PEI) project actively refocused the priorities of the campaign with an emphasis on Suicide Prevention, Help-Seeking Behavior Improvement, and culturally and linguistically congruent messaging. In addition to the refocusing of the campaign, CalMHSA worked with our Contractors to respond to the COVID-19 pandemic and the need for resources for diverse communities. Throughout the entire fiscal year, there was a clear focus on providing individuals with resources to help them through the pandemic and all the repercussions therein.

Key highlights of FY 2020-2021:

- September 2020 Suicide toolkit and resources
- May 2021 Mental Health Matters Month toolkit and resources
- Tips for Self-care in COVID in 19 different threshold and key languages

The activities and strategies taken in FY 2020-2021 provided the campaign with lessons learned and strategies that are assisting CalMHSA and our Contractors to develop a new, and improved, campaign to meet the needs of our Member Counties and California's General Population.

LA County PEI – Through strategic partnerships Los Angeles Department of Mental Health focused their CalMHSA administered FY 20/21 PEI efforts on improving student mental health efforts throughout the County. These efforts included partnerships with renowned experts in the field of student mental health. The focus on the project centered around training school staff and students to recognize the signs of mental illness and suicide with the goal of reduced stigma and improved help-seeking. Moving forward, LA County will continue to prioritize training school staff and providing resources to youth while adapting to the new difficulties caused by distance learning.

LA County Media Campaign – CalMHSA continued its efforts in the development of cultural adaptation and customization of marketing assets, and advertisements in an effort to support a Prevention and Early Intervention media campaign focused on a virtual Mental Health Month (May 2021) as well as focusing on overall mental health as it relates to Covid-19 and its impact. LA County's approach was to encourage physical distance but staying connected to each other. As we move forward, a focus on prevention/early

intervention as it relates to the pandemic and social justice will be incorporated into the overall campaigns while building upon relationships with partners to expand the reach across Los Angeles County.

Sacramento County PEI Grants – During FY 2020-2021, the 28 Sacramento County Grantees continued to implement and expand their respective programs. While the COVID-19 pandemic caused some implementation delays all the grantees continued to meet their program goals and the needs of their respective communities. Due to the COVID-19 pandemic, Sacramento County has made the decision to not undergo a 2nd round of grants at this time, but this may be revisited based on local needs and feedback.

Kaiser Grant – California Behavioral Health Directors Association (CBHDA), in partnership with CalMHSA, will engage a coalition of California behavioral health stakeholders to develop and implement a multi-year strategic plan for strengthening the public behavioral health workforce (with focus on Southern California counties). The plan will include an assessment of current workforce gaps and challenges to inform policy recommendations and corresponding implementation strategies to help California build a future behavioral health workforce. This program's implementation was delayed as a result of COVID-19. Kaiser approached CalMHSA and CBHDA asking if a delay in start would be helpful. CBHDA, as the project lead, stated it would.

Innovative Technology Projects:

The following Innovative Technology Projects are included in CalMHSA's operations during the fiscal year ended June 30, 2021:

- **Help@Hand** – The Innovation Technology Suite Project (INN Tech Suite Project), rebranded as Help@Hand, is being administered by CalMHSA on behalf of participating member counties. In December 2018, CalMHSA also took up the role of Project Management. This was a three-year demonstration project, extended to additional two years in September 2019. This program is funded and directed by counties. The primary purpose of this Help@Hand Project is to increase access to mental health care and support and to promote early detection of mental health symptoms, or even predict the onset of mental illness. Through the utilization of multiform-factor devices, such as smart phones, tablets and laptops, as a mode of connection and treatment to reach people who are likely to go either unserved or underserved by traditional mental health care, project services will focus on prevention, early intervention, family and social support to decrease the need for psychiatric hospital and emergency care service.
- **Digital Resource Navigator** – An Innovation program in Orange County that is creating a digital resource navigator platform where users will be able to search both public and private resources available in OC. The goal is to help folks better navigate both public and private systems. Users will be able to take a social determinates of health survey to help filter more/less appropriate resources. Contracted with Chorus which is a multi-year project.
- **Early Psychosis Learning** – An Innovation Program that brings together several counties to track the EP programs and form a learning collaborative to further the expansion of these highly successful programs for other counties. Contracted with UC Davis which is multi-year project.
- **Full Service Partnership** – A multi-county project contracted with Third Sector for program management and oversight. RAND will be evaluator contractor once all counties have signed PAs. Contract seeks to develop best practices for implementation and execution of FSP services, including patient satisfaction. This is a multi-year project.

Strategic Programs:

In addition to the Statewide PEI and Innovative programs, the following Strategic Programs are included in CalMHSA's operations during the fiscal year ended June 30, 2021:

- **State Hospital Beds** – CalMHSA acts on behalf member counties (and possibly non-member counties via a contract) in the annual purchase contract for State Hospital Beds (as provided under
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sections 4330 et seq. of WIC). In addition, at the request of participating members, CalMHSA is working to seek alternatives to state hospitals.

- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline and Suicide Prevention of Yolo for the Northern Region Suicide Prevention Hotline. They provide specialized support and outreach to contributing counties in the two regions.
- **Employee Loan Forgiveness** – The Program is designed to pay employee loan debt incurred by current or prospective employees or contractors who fill positions that participating counties have deemed to be a) hard to fill or retain, or b) part of a mental health career path. The participants (Counties) will identify to CalMHSA the names of current or prospective employees or contractors, their respective employee lending institutions, employee loan amounts owed, and the schedule and amount to be paid to the employee lending institutions. Upon verification by Participants of an employee’s continued eligibility for loan forgiveness, CalMHSA will make payments directly to the employee’s identified employee lending institution(s) and verify funds receipt by the employee lending institution and the reduced balance owed by the employee. Currently, there are 2 participating counties, Alameda and Contra Costa. However, this project has expanded due to one time funding awarded to counties through OSPHD, to be rolled out regionally. These regional efforts are time sensitive and contractual discussion have commenced with several regions.
- **AB1299 | Presumptive Transfer for Foster Youth** – California law allows foster children who are placed outside of their county of original jurisdiction to access specialty mental health services in a timely manner through “presumptive transfer”. This requires the transfer of funds between counties. CalMHSA is working with counties to analyze the use of CalMHSA as a fiscal agent (CalMHSA) to more efficiently and cost-effectively process payments between counties.

Under the Welfare and Institution Code § 14717.1, responsibility for providing or arranging for specialty mental health services shall promptly transfer from the county of original jurisdiction to the county in which a foster child resides, subject to any exceptions established pursuant to that section. This is known as “presumptive transfer.” Counties have agreed that the county of original jurisdiction (sending county) remains responsible for reimbursing the receiving county for specialty mental health services provided or arranged by the receiving county. Under this program, CalMHSA acts as a fiscal agent for participating counties to make and receive transfer payments of county match dollars. Counties started participating in this program July 1, 2018 and actively transferring payments from January 1, 2020.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2021

Financial Highlights for the Fiscal Year Ended June 30, 2021

Revenues	\$63.2 million	Revenues increased by \$10.8 million of the prior year. The increase is mainly a result of the new FEMA grant program with total revenues of \$15.7 million. There was a decrease of \$0.55 million in Investment revenue.
Expenses	\$48.0 million	Expenses increased by \$13.0 million over the prior year. The increase is largely attributed to the FEMA grant program (COVID-19 and Fire) starting up later in the fiscal year. The combination of the COVID-19 and Fire grants total \$15.2 million in expenses.
Assets	\$95.1 million	Assets increased \$40.6 million over the prior year. Accounts Receivable increased by \$20 million due to FEMA grant program reimbursements not yet realized. Reimbursements received for the FEMA grant program increased cash.
Liabilities	\$33.6 million	Liabilities increased \$26.0 million over the prior year. The increase of \$19.5 million in unearned revenue is due to unspent funds for the FEMA grant program. Accounts Payable increased by \$10 million due to FEMA grant program bills.

Overview of Financial Statements

The Authority's basic financial statements consist of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Basic Financial Statements.

Government-wide Financial Statements

The government-wide financial statements found on pages 11 and 12 are designed to give readers a broad overview of the Authority's financial position. These include all of the Authority's assets and liabilities, revenues and expenses. The accounting basis is full accrual (similar to private sector companies) where revenues are recorded as earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows.

The Statement of Net Position presents all of the Authority's assets, liabilities with the difference reported as net position (or equity in the private sector). Overtime, increases or decreases in net position serve as useful indicator of whether the financial position of the Authority is improving or declining.

The Statement of Activities presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Fund Financial Statements

The fund financial statements can be found on pages 13 through 16 of this report. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

Differences between the two sets of financial statements are normally determined by the complexity of the reporting agency and usually revolve around different treatments for capital assets and debt issuance and repayment. Since the Authority has no capital assets and no long-term debts, the Government-wide and the Fund Financial Statements are similar.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2021

Governmental Funds The focus of the Authority's governmental fund is to provide information on the sources, uses and balances of spendable resources. Such information is useful in assessing the Authority's short-term financial requirements. The type of governmental fund reported by the Authority includes the General Fund.

Fiduciary funds: The Authority's Fiduciary funds consist of two Custodial funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Authority's own programs.

Notes to the Basic Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes describe the nature of CalMHSA's operations and significant accounting policies as well as clarify unique financial information.

Analysis of Overall Financial Position and Results of Operations

The following sections provide additional details on CalMHSA's financial position and activities for fiscal years 2021 and 2020, and a look ahead at economic conditions that may affect CalMHSA in the future.

I. Net Position

	Governmental Activities	
	2021	2020
Assets:		
Current and other assets	\$ 95,131,469	\$ 53,946,335
Capital assets	-	523,351
Total Assets	95,131,469	54,469,686
Liabilities:		
Current liabilities	33,441,107	7,546,274
Long-term liabilities	122,718	-
Total Liabilities	33,563,825	7,546,274
Net Position:		
Unrestricted	3,884,422	3,724,479
Restricted	57,683,222	43,198,933
Total Net Position	61,567,644	46,923,412
Total Liabilities and Net Position	\$ 95,131,469	\$ 54,469,686

Total assets increased by \$40.6 million from \$54.5 million at June 30, 2020 to \$95.1 million at June 30, 2021. \$25.9 million is held in the Local Agency's Investment Fund (LAIF), an external investment pool managed by the State Treasurer's Office, \$19.3 million is held by Zions Bank in a money market fund.

Total liabilities increased by \$26.0 million from \$7.5 million at June 30, 2020 to \$33.6 million at June 30, 2021. The increase is related to the growth of the CalMHSA programs resulting in more amounts owed to contractors at year-end. Additionally, there was an increase in unearned revenues for pre-funding of the FEMA grant program that will be expensed in the coming year.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2021

II. Statement of Revenues, Expenses and Changes in Net Position

	Governmental Activities	
	2021	2020
Revenues:	\$ 63,249,447	\$ 52,451,524
Expenses:		
Program Expenses	46,557,343	34,973,968
General and Administration	1,446,500	-
Total Expenses	48,003,843	34,973,968
Change in Net Position:	15,245,604	17,477,556
Net Position - Prior Year:	46,923,412	29,445,856
Cumulative effect of GASB 84	(601,372)	-
Net Position - Prior Year, restated:	46,322,040	29,445,856
Net Position - Current Year:	\$ 61,567,644	\$ 46,923,412

For the fiscal year ended, June 30, 2021, total revenue increased by \$10.8 million. The increase is a result of funding for the new FEMA grant program.

Expenses increased by \$13.0 million over the prior year. The increase is directly related to the new FEMA grant program expenses, which account for \$15.5 million. PEI spending decreased by \$4.8 million and Help@Hand expenses decreased by \$2.3 million from the prior year.

Financial Analysis of Fund Statements

The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Authority's governmental fund is to provide information on the sources, uses and balances of spendable resources. Such information is useful in assessing the Authority's short-term financial requirements. The type of governmental fund reported by the Authority includes the General Fund.

The General Fund is the only operating fund for the Authority. At the end of the fiscal year, the General Fund's total fund balance was \$56.6 million as compared to \$46.9 million for the prior fiscal year. There is an increase of \$9.7 million, or 20%, due to higher amount of revenues over expenditures during the last fiscal year.

Revenues for the Authority consist primarily of dues from 58 members comprised of 56 counties, one city, and one JPA. Revenues during the year increased to \$58.1 million this FY2021 compared to \$52.4 million in FY2020. The increase of \$6 million or 11.4% is due to additional grant revenue received.

Expenditures during the year increased to \$48.0 million this FY2021 compared to \$35.0 million in FY2020. The increase of \$13.0 million or 37% is due to the new FEMA grant program.

Description of Facts or Conditions that are expected to have a Significant Effect on Financial Position or Results of Operations

For the past decade, California has steadily grown a statewide movement toward prevention and early intervention underwritten by MHSAs funds. CalMHSA was created by the counties in 2010, to administer MHSAs PEI projects on a statewide basis. Through the initial implementation and the second phase (Phase I: 2011-2015, Phase II: 2015-2017, and Phase III: 2018-2020) of the CalMHSA Statewide PEI Project, CalMHSA developed and implemented population-based strategies aligned with Welfare and Institutions Code Section 5840. The PEI Project continues to be endorsed by counties but funding with local MHSAs funds continues to be challenging.

Given these concerns, some counties may have declined or reduced their funding level to the PEI Project because of lack of local stakeholder support for statewide initiatives that don't directly apply to specific local needs. CalMHSA wants to facilitate continued county investment in the PEI Project by allowing more flexibility for local activities, referred to as "county specific projects". These county-specific projects would be built from programs that are currently implemented under the Statewide PEI Project, such as Each Mind Matters, Know the Signs, Walk In Our Shoes, Directing Change, or others.

The COVID-19 pandemic impacted various programs. Given much of the PEI Program's work is out engaging the community, funds were not expended as previously planned. In other programs, Members expedited launching resources to their communities due to need, therefore work on these programs increased.

Budgetary Highlights

CalMHSA's annual budget approval process begins with a preliminary budget which is revised to reflect new programs or closing programs and presented to the Finance Committee.

CalMHSA adopts an annual budget after a preliminary budget is approved by the Finance Committee and the Finance Committee chair presents the proposed budget to the Board. During the year, if an amendment to the budget is required the amended budget is presented to the Board for approval. A budgetary comparison schedule (page 31) has been provided to demonstrate compliance with this budget.

During the fiscal year, actual revenues were lower than budgetary estimated revenues by \$34 million. The decrease in revenues is primarily due to \$19.5 million in FEMA grant program funding being reported as Unearned Revenue and the delay in starting the WET program.

Request for Information

We hope that the preceding information has provided you with a general overview of CalMHSA's overall financial status. For questions or comments concerning information contained in this report, please contact P.O. Box 22967, Sacramento, CA 95822.

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF NET POSITION
June 30, 2021

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 67,275,810
Prepaid expenses	145,047
Accounts receivable	27,585,372
Other receivables	101,281
Other assets	<u>23,959</u>
Total assets	<u>\$ 95,131,469</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 13,565,962
Accrued expenses	414,934
Unearned revenue	<u>19,460,211</u>
Total current liabilities	<u>33,441,107</u>
Noncurrent liabilities:	
Accrued compensated absences	<u>122,718</u>
Total noncurrent liabilities	<u>122,718</u>
Total liabilities	<u>33,563,825</u>
NET POSITION	
Unrestricted	3,884,422
Restricted	<u>57,683,222</u>
Total net position	<u>61,567,644</u>
Total liabilities and net position	<u>\$ 95,131,469</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2021

		Program Revenues		Net (expenses) Revenues and Change in Net Position
Expenses	Charges for Services	Operating Grants and Contributions		Change in Activities
Functions/programs				
Governmental Activities:				
General Government	\$ 48,003,843	\$ 7,857,225	\$ 55,216,510	\$ 15,069,892
Total governmental activities	\$ 48,003,843	\$ 7,857,225	\$ 55,216,510	15,069,892
General Revenues:				
Investment Earnings				165,270
Miscellaneous Income				10,442
Total general revenues				175,712
Change in net position				15,245,604
Net position – beginning				46,923,412
Cumulative effect of GASB 84				(601,372)
Net position – beginning of year, as restated				46,322,040
Net position – ending				\$ 61,567,644

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2021

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 67,275,810
Prepaid expenses	145,047
Accounts receivable	27,585,372
Other receivables	101,281
Other assets	23,959
Total assets	<u>95,131,469</u>
LIABILITIES	
Accounts payable	13,565,962
Accrued expenses	414,934
Unearned revenue	19,460,211
Total liabilities	<u>33,441,107</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue	5,071,996
Total deferred inflows of resources	<u>5,071,996</u>
FUND BALANCE	
Nonspendable	145,047
Restricted	53,887,423
Unassigned	2,585,896
Total fund balance	<u>56,618,366</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 95,131,469</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021

Total fund balances – per governmental fund balance sheet	\$	56,618,366
Amounts reported for governmental activities in the statement of net position are different because:		
Revenues recognized for governmental activities that are not available in the current period and, therefore, are not reported in the funds.		5,071,996
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The long-term liabilities consist of the following:		
Compensated absences payable		<u>(122,718)</u>
Net position of governmental activities	\$	<u>61,567,644</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED June 30, 2021

	General Fund
Revenues	
Intergovernmental	\$ 51,420,711
Charges for Services	6,581,028
Investment Earnings	165,270
Miscellaneous	10,442
Total revenues	58,177,451
Expenditures	
Current	
General Government	47,881,125
Total expenditures	47,881,125
Net change in fund balance	10,296,326
Fund balance – beginning	46,923,412
Cumulative effect of GASB 84	(601,372)
Fund balance – beginning, as restated	46,322,040
Fund balance – ending	\$ 56,618,366

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2021

Net change in fund balance of the governmental fund	\$	10,296,326
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the fund		5,071,996
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund		<u>(122,718)</u>
Change in net position of governmental activities	\$	<u>15,245,604</u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2021

	<u>Custodial Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>3,256,077</u>
Total assets	<u>3,256,077</u>
LIABILITIES	
Accounts payable and other liabilities	<u>25,000</u>
Total liabilities	<u>25,000</u>
NET POSITION	
Restricted for:	
Individuals, organizations, and other governments	<u>3,231,077</u>
Total net position	<u>\$ <u>3,231,077</u></u>

See Notes to Financial Statements

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED June 30, 2021

	Custodial Funds
ADDITIONS	
Contributions:	
Members	\$ 1,019,064
Total contributions	1,019,064
Investment earnings:	
Interest, dividends, and other	32,138
Total investment earnings	32,138
Net investment earnings	32,138
Miscellaneous	9,013
Total additions	1,060,215
DEDUCTIONS	
Benefits paid to participants or beneficiaries	123,571
Refunds and transfers to other systems	409,835
Administrative expense	217,001
Total deductions	750,407
Net increase (decrease) in fiduciary net position	309,808
Net position – beginning	-
Cumulative effect of GASB 84	2,921,269
Net position – beginning, as restated	2,921,269
Net position – ending	\$ 3,231,077

See Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

California Mental Health Services Authority (“CalMHSA”) is an independent administrative and fiscal government agency focused on the efficient delivery of California Mental Health Projects. CalMHSA was established by a Joint Powers Agreement on July 1, 2009, under Government Code Section 6500 et seq. among California Counties to obtain and administer public funds to provide certain community mental health services to persons residing within the same counties and cities. Member counties jointly develop, fund and implement mental health services, projects, and educational programs at the state, regional, and local levels. CalMHSA is governed by a Board of Directors, which is composed of the local county or city mental health director from each member, appointed or designated. As of June 30, 2021, there were 58 members (56 counties, one city and one JPA).

Admission: To be accepted for membership in CalMHSA, counties must complete an application form and submit the required one-time application fee. The application fee ranges from \$250 - \$1,000 depending on the most recent county population figures published by the State Department of Finance. Counties must then submit a signed participation resolution to CalMHSA that has been approved by the county’s Board of Supervisors, execute the Joint Powers Authority Agreement and agree to be to be bound by any subsequent amendments to the agreement, designate an alternate to the Board as representative and complete the required Fair Political Practices Commission (FPPC) forms.

Withdrawal: A member may withdraw from CalMHSA upon written notice no later than December 31 of the fiscal year if it has never become a participant in any program or if it had previously withdrawn from all programs in which it was a participant. A member who withdraws from CalMHSA is not entitled to the return of any payments to the Authority.

CalMHSA is not a legislative agency, nor an approval or advocacy body. CalMHSA is a best practice inter-governmental structure with growing capacity and capability to promote systems and services arising from a shared member commitment to community mental health. CalMHSA supports the values of the California Mental Health Services Act:

- Community collaboration
- Cultural competence
- Client/family-driven mental health system for children, transition age youth, adults, older adults
- Family-driven system of care for children and youth
- Wellness focus, including recovery and resilience
- Integrated mental health system service experiences and interactions

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Mental Health Services Act (Proposition 63), passed in November 2004, provides the first opportunity in many years for the California Department of Mental Health (DMH) to provide increased funding, personnel and other resources to support county mental health programs and monitor progress toward statewide goals for children, transition age youth, adults, older adults and families. This Act imposes a 1% income tax on personal income in excess of \$1 million and provides the counties of California the funds needed to set up contract services for strategies to reduce the following negative outcomes that may result from untreated mental illness:

- Suicide
- Incarcerations
- School failure or dropout
- Unemployment
- Prolonged suffering
- Homelessness
- Removal of children from their homes

As the counties are responsible to use these funds as stated, CalMHSA was established in 2009 to help with the contracting of these services.

BASIS OF PRESENTATION

The Statement of Net Position and the Statement of Activities display information about CalMHSA. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities.

The Government-Wide Statement of Net Position presents information on all of CalMHSA's assets and liabilities, with the difference between the two presented as net position. Net Position is reported as one of three categories: invested in capital assets, net of related debt; restricted or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that are otherwise restricted. All fiduciary activities are reported only in the fund financial statements.

The Government-Wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of CalMHSA's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are, therefore, clearly identifiable to a particular function. CalMHSA does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of CalMHSA. CalMHSA reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function.

Fund Financial Statements: Fund financial statements report detailed information about CalMHSA. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. CalMHSA has only one operating fund, the General Fund.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments and service charges are recognized as revenues in the year for which they are levied. Expenses are recorded when liabilities are incurred.

Governmental Fund Financial Statement: Governmental fund financial statements (i.e., Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For this purpose, CalMHSA considers revenues to be available if they are collected within 90 days of the end of the current fiscal period.

Non-exchange transactions, in which CalMHSA receives value without directly giving equal value in return, include program funding, assessments and interest income. Under the accrual basis, revenue from program funding and assessments is recognized in the fiscal year for which the program funding and assessments are levied. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In August 2014, the CalMHSA Board approved a Phase II Funding Plan for purpose of continuing work related to PEI projects through June 30, 2017. Funding for Phase I and Phase II is derived from current county members committing a range of 1% to 7% funding from their local PEI funds for the next three fiscal years, in addition to CalMHSA seeking other funding to include state and federal resources.

Through implementation of the Phase III CalMHSA Statewide PEI Project Plan, CalMHSA and its member counties embarked on the 7th year of PEI Project activities. Funding for Phase III (July 1, 2017 through June 30, 2020) is derived from current county members committing up to 4% of their annual PEI funds to CalMHSA on an annual basis for 3 years.

In addition to the PEI program, the following strategic programs were also included in CalMHSA’s operations during the fiscal year ended June 30, 2021:

- **Suicide Prevention Hotline** – CalMHSA contracted with Kings View Behavioral Health to operate the Central Valley Suicide Prevention Hotline with specialized support and outreach provided to the seven contributing counties of Fresno, Kings, Mariposa, Madera, Merced, Stanislaus and Tulare.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Innovation Tech Suite** – The Innovation Technology Suite Project (INN Tech Suite Project) is being administered by CalMHSA on behalf of participating member counties. This is a three-year demonstration project which is funded and directed by counties. The primary purpose of this INN Tech Suite Project is to increase access to mental health care and support and to promote early detection of mental health symptoms, or even predict the onset of mental illness. Through the utilization of multifactor devices, such as smart phones, tablets and laptops, as a mode of connection and treatment to reach people who are likely to go either unserved or underserved by traditional mental health care, project services will focus on prevention, early intervention, family and social support to decrease the need for psychiatric hospital and emergency care service.
- **LA County PEI** – CalMHSA will continue its statewide efforts in the development of cultural adaptation and customization of marketing assets, and advertisements in an effort to support a Prevention and Early Intervention media campaign focused on Mental Health Month (May 2021). As part of this effort the key focus will be on breaking down barriers to treatment by engaging with stakeholders using new and innovative messaging and a call to action.
- **Sacramento Awards Project** – Sacramento County PEI Grants- \$10 million in grants to community-based organizations, utilizing PEI funds to support community understanding of mental wellness, stigma reduction, and help-seeking. One round is currently on-going and a 2nd round will be early 2021, with the goal of allowing in-person gatherings, with the same goal.
- **Kaiser Grant** – CBHDA, in partnership with CalMHSA, will engage a coalition of California behavioral health stakeholders to develop and implement a multi-year strategic plan for strengthening the public behavioral health workforce (with focus on Southern California counties). The plan will include an assessment of current workforce gaps and challenges to inform policy recommendations and corresponding implementation strategies to help California build a future behavioral health workforce.
- **Digital Resource Navigator** – An Innovation program in Orange County that is creating a digital resource navigator platform where users will be able to search both public and private resources available in OC. The goal is to help folks better navigate both public and private systems. Users will be able to take a social determinates of health survey to help filter more/less appropriate resources. Contracted with Chorus.
- **Early Psychosis Learning** – An Innovation Program that brings together several counties to track the EP programs and form a learning collaborative to further the expansion of these highly successful programs for other counties. Contracted with UC Davis.
- **Full Service Partnership** – A multi-county project contracted with Third Sector for program management and oversight. RAND will be evaluator contractor once all counties have signed PAs. Contract seeks to develop best practices for implementation and execution of FSP services, including patient satisfaction.
- **FEMA Grant** – A crisis counseling program providing resources to those impacted by the California fires and the COVID 19 pandemic.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND ACCOUNTING

The accounts of CalMHSA are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. CalMHSA resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. CalMHSA has one governmental fund and one fiduciary fund.

Governmental Fund: The General Fund is the general operating fund of CalMHSA. It is used to account for all transactions except those required or permitted by law to be accounted for in another fund.

Fiduciary Fund: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support CalMHSA's programs.

Custodial Fund: Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust that meets the criteria in paragraph 11c(1) should be reported in a separate external investment pool fund column, under the custodial funds classification.

- **Employee Loan Forgiveness Program** – The Program is designed to pay employee loan debt incurred by current or prospective employees or contractors who fill positions that Contra Costa County has deemed to be a) hard to fill or retain, or b) part of a mental health career path. The participant (County) will identify to CalMHSA the names of current or prospective employees or contractors, their respective employee lending institutions, employee loan amounts owed, and the schedule and amount to be paid to the employee lending institutions. Upon verification by Participant of an employee's continued eligibility for loan forgiveness, CalMHSA will make payments directly to the employee's identified employee lending institution(s), and verify funds receipt by the employee lending institution and the reduced balance owed by the employee.
- **AB1299** – California law allows foster children who are placed outside of their county of original jurisdiction to access specialty mental health services in a timely manner through "presumptive transfer". This requires the transfer of funds between counties. CalMHSA is working with counties to analyze the use of CalMHSA as a fiscal agent (CalMHSA) to more efficiently and cost-effectively process payments between counties.

Under the Welfare and Institution Code § 14717.1, responsibility for providing or arranging for specialty mental health services shall promptly transfer from the county of original jurisdiction to the county in which a foster child resides, subject to any exceptions established pursuant to that section. This is known as "presumptive transfer." Counties have agreed that the county of original jurisdiction (sending county) remains responsible for reimbursing the receiving county for specialty mental health services provided or arranged by the receiving county. Under this program, CalMHSA acts as a fiscal agent for participating counties to make and receive transfer payments of county match dollars. Counties commenced participating in this program July 1, 2018.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or when their receipt occurs within 90 days after the end of the fiscal year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recognized later based on specific accounting rules, generally when payment is due.

BUDGETARY BASIS OF ACCOUNTING

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund. CalMHSA presents a comparison of annual budget to actual results.

The draft budget is presented to and accepted by the Finance Committee. Prior to July 1, the Chair to the Finance Committee presents the recommended budget to the Board of Directors for approval.

CalMHSA does not use encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation.

GASB STATEMENT NO. 84

GASB Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 19, 2019. CalMHSA adopted this standard for fiscal year ended June 30, 2021. The adoption of this statement changed the Presumptive Transfer and Loan Forgiveness programs reporting. CalMHSA is now no longer required to report the financial activities of Presumptive Transfer and Loan Forgiveness programs in its financial statements. The impact of removing the Loan Forgiveness programs funding and reclassifying Presumptive Transfer funding resulted in a restatement of July 1, 2020, fund balance and Governmental Activities July 1, 2020 Net Position as follows.

	Fiduciary Funds	Governmental Activities	General Fund
Fund balance / Net position at July 1, 2020	\$ -	\$46,923,412	\$46,923,412
Impact of adoption of GASB 84	2,921,269	(601,372)	(601,372)
Fund balance / Net position at July 1, 2020 as restated	<u>\$ 2,921,269</u>	<u>\$46,322,040</u>	<u>\$46,322,040</u>

CASH AND CASH EQUIVALENTS

CalMHSA considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS

CalMHSA developed a secure portal with approval by the California Behavioral Health Directors Association (CBHDA) for its AB1299 program to allow counties to perform timely presumptive transfers. The portal became functional in January 2020 and CalMHSA capitalized prior expenses to get the portal operational in FY 2019-2020. The Capital Assets Footnote 5 can be found on page 29 of this report.

GRANT ENTITLEMENT

CalMHSA is a participant in a number of federal and state-assisted programs. These programs may be subject to future compliance audits by the grantors. Accordingly, the Authority's compliance with applicable program requirements is not completely established. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time. The Authority believes it has adequately provided for potential liabilities, if any, which may arise from the grantors' audits.

COMPENSATED ABSENCES

CalMHSA's Paid Time Off policy permits employees to accumulate earned but unused paid time off benefits, which are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable. Sick Leave lapses when employees leave the employ of CalMHSA and, upon separation from service, no monetary obligation exists.

DEFERRED INFLOWS

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: charges for services and intergovernmental. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NET POSITION

The government-wide and fiduciary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted net position** - consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Sometimes CalMHSA will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the CALMHSA’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

FUND BALANCE

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*”, CalMHSA is required to report fund balances in the following categories, as applicable: Nonspendable, Restricted, Committed, Assigned and/or Unassigned.

Nonspendable Fund Balance reflects assets not in spendable form, either because they will never convert to cash (e.g. prepaid expense) or must remain intact pursuant to legal or contractual requirements.

Restricted Fund Balance reflects amounts that can be spent only for the *specific purposes* stipulated by constitution, external resource providers, or through enabling legislation.

Committed Fund Balance reflects amounts that can be used only for the *specific purposes* determined by a formal action of the government’s highest level of decision-making authority: the Board of Directors. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned Fund Balance reflects amounts intended to be used by the government for *specific purposes* but do not meet the criteria to be classified as restricted or committed. In accordance with adopted policy, only the Board of Directors is authorized to assign amounts for specific purposes.

Unassigned Fund Balance represents the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications.

When expenditures are incurred for purposes of which restricted, committed, assigned and unassigned fund balances are available, CalMHSA considers restricted funds to have been spent first, followed by committed, assigned and unassigned, respectively.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 2 – CASH AND INVESTMENTS

CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2021, consisted of the following:

Cash on hand	\$ 22,087,135
Money Market Account	19,293,715
LAIF	25,894,960
Fiduciary fund cash on hand	<u>3,256,077</u>
	<u>\$ 70,531,887</u>

Cash in Bank

As of June 30, 2021, CalMHSA's cash balance per the bank (excluding Money Market and LAIF accounts) of \$25,343,212, is insured by the Federal Depository Insurance Corporation up to \$250,000. Section 53652 of the California Governmental Code requires financial institutions to secure deposits made by governmental units in excess of insured amounts, by the pledging of governmental securities as collateral. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by governmental units.

Money Market Account

As of June 30, 2021, CalMHSA's had cash in a money fund managed by Zions Bank in the amount of \$19,293,715.

Local Agency Investment Fund

California Mental Health Services Authority places certain funds with the State of California's Local Agency Investment Fund (LAIF). The District is a voluntary participant in LAIF, which is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurers Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the District's investment in this pool is reported in the accompanying financial statements based upon the CalMHSA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours' notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations.

LAIF is administered by the State Treasurer and is audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

GASB Statement No. 31

GASB Statement No. 31 requires CalMHSA to adjust the carrying amount of its investment portfolio to reflect the change in fair or market values. Interest revenue is increased or decreased in relation to this adjustment of unrealized gain or loss. Net interest income in the funds reflects this positive or negative market value adjustment.

INVESTMENTS

Investments are reported at fair value. Changes in fair value that occur during a fiscal year and any gains or losses realized upon the liquidation, maturity, or sale of investments are recognized as net increase (decrease) in investment fair values reported for that fiscal year. Investment income consists primarily of interest earnings on investments held by CalMHSA.

Disclosures Relating to Interest Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that CalMHSA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of CalMHSA's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

Disclosures Relating to Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2021, CalMHSA did not hold any investments.

Concentration of Credit Risk - The investment policy of CalMHSA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and CalMHSA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure CalMHSA's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 3 – RECEIVABLES

The receivables balance represents funding revenue for programs that was billed prior to year end, but funds were not received until after year end. Due to the nature of the receivables and the likelihood of collection, no provision for uncollectible accounts has been made. Receivables for FY 2020-2021 total \$27,585,372. At June 30, 2021, receivables in the amount of \$292,714 are not expected to be collected within one year.

NOTE 4 – UNEARNED REVENUE

Unearned revenue in the governmental funds represents restricted amounts received for which revenue recognition criteria have not been met because such amounts have not yet been earned. At June 30, 2021, there was \$19.5 million unearned revenue for FEMA grants received not yet spent.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED June 30, 2021

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021, was as follows:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2021</u>
Capital Assets, Being Depreciated AB 1299 Portal	\$ 581,501	\$ -	\$ -	\$ 581,501
Total capital assets, Being Depreciated	<u>581,501</u>	<u> </u>	<u> </u>	<u>581,501</u>
Less accumulated depreciation for: AB 1299 Portal	<u>(58,150)</u>	<u>(523,351)</u>	<u> -</u>	<u>(581,501)</u>
Total accumulated depreciation	<u>(58,150)</u>	<u>(523,351)</u>	<u> -</u>	<u>(581,501)</u>
Total capital assets, Being depreciated, Net	<u>\$ 523,351</u>	<u>\$ (523,351)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

<u>Type of Indebtedness</u>	<u>Balance July 1, 2020</u>	<u>Adjustments/ Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2021</u>
Governmental activities Compensated absences	\$ -	\$ 122,718	\$ -	\$ 122,718
Total governmental Activities	<u>\$ -</u>	<u>\$ 122,718</u>	<u>\$ -</u>	<u>\$ 122,718</u>

Compensated absences for governmental activities are generally liquidated by the fund where the accrued liability occurred.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY ("CalMHSA")
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED June 30, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
PEI Programs	\$ 27,997,320	\$27,997,320	\$ 29,192,036	\$ 1,194,716
Innovation Projects	13,187,015	13,187,015	12,310,094	(876,921)
State Hospital Bed Program	610,000	610,000	560,438	(49,562)
Suicide Prevention Program	880,000	880,000	890,853	10,853
WET	9,688,500	9,688,500	314,672	(9,373,828)
AB 1299 – Admin Fee	300,000	300,000	103,080	(196,920)
FEMA	-	34,477,290	14,834,666	(19,642,625)
Other Revenues	-	-	(28,388)	(28,389)
Contingencies	<u>5,000,000</u>	<u>5,000,000</u>	<u>-</u>	<u>(5,000,000)</u>
Total Revenues	<u>57,662,835</u>	<u>92,140,125</u>	<u>58,177,451</u>	<u>(33,962,674)</u>
EXPENDITURES				
Program expenses	56,245,881	84,345,441	46,557,343	37,788,098
General and Administration	<u>2,689,600</u>	<u>2,388,142</u>	<u>1,323,782</u>	<u>1,064,360</u>
Total Expenditures	<u>58,935,481</u>	<u>86,733,583</u>	<u>47,881,125</u>	<u>38,852,458</u>
Net Change in Fund Balances	(1,272,646)	5,406,542	10,296,326	4,889,784
Fund balances – Beginning, as restated	<u>46,322,040</u>	<u>46,322,040</u>	<u>46,322,040</u>	<u>-</u>
Fund Balances – Ending	<u>\$ 45,049,394</u>	<u>\$51,728,582</u>	<u>\$ 56,618,366</u>	<u>\$ 4,889,784</u>

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

Board of Directors
California Mental Health Services Authority
Rancho Cordova, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of California Mental Health Services Authority as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise California Mental Health Services Authority's basic financial statements, and have issued our report thereon dated January 4, 2022. Our report included an emphasis of matter noting that the Authority adopted new accounting guidance, GASB Statement No. 84, Fiduciary Activities, which resulted in the addition of activities identified as custodial funds for the Presumptive Transfer and Loan Forgiveness program. The new accounting guidance also resulted in a restatement of the July 1, 2020 governmental activities net position in the amount of \$601,732, general fund in the amount of \$601,372, and fiduciary funds in the amount of \$2,921,269. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered California Mental Health Services Authority'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 California Mental Health Services Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of California Mental Health Services Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2021-001, 2021-002, 2021-003, 2021-005, and 2021-007 to be material weaknesses.

(Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as 2021-004, and 2021-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether California Mental Health Services Authority '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*.

California Mental Health Services Authority's Response to Findings

California Mental Health Services Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. California Mental Health Services Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



Crowe LLP

Costa Mesa
January 4, 2022

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

CURRENT YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

2021-001 Segregation of Duties over Cash Receipts and Disbursements

Classification:

Material Weakness

Criteria:

Organizations should have strong segregation of duties internal controls in place as it relates to cash receipts, cash disbursements, and bank reconciliations. If such functions are not segregated, detective and monitoring review controls should be established to address and adequately mitigate such risks.

Condition/Context:

During our audit, we observed one employee unilaterally performing cash disbursements, cash receipts, and bank reconciliations. For example, for cash disbursements, we noted one employee received vendor invoices, recorded the transaction in the general ledger, then also prepared and printed the vendor checks. With respect to cash receipts, this same employee prepared billing invoices for services rendered, recorded the transactions in the general ledger, as well as initiated monthly cash receipt and bank reconciliations.

Effect:

The lack of a strong system of internal controls and establishment of a robust control environment surrounding key accounting cycles exposes CalMHSA to significantly higher risks of fraud, misappropriation of funds, and improper financial reporting, which could result in a material misstatement of the financial statements. Furthermore, such instances, whether fraudulently or unintentionally, would likely occur undetected without the knowledge of Management.

Cause:

Prior to November 1, 2020, CalMHSA employed an administrative firm, specializing in JPA management. Effective November 1, 2020, the administrative firm's contract was terminated, resulting in CalMHSA independently operating and managing its entity, with its own staff and management. As a result, Management has not created a clearly defined departmental structure, or adopted a system of controls, procedures, and policies, to ensure independent individuals are performing key functions of various accounting cycles. In response to a lack of stated procedures, the presence of detective and monitoring controls should be in place but were also not implemented by Management as a compensating control to address the issue of segregation of duties.

Recommendation:

We recommend that management establish a thorough system of internal controls, which are formally documented through policies and standard operating procedures. We recommend that Management segregate the cash disbursements, cash receipts, and bank reconciliations functions. Creating and establishing such policies and internal controls will help management mitigate the risk of materially misstating the financial statements.

Management's Response:

We agree with the auditors' comments, and the following action has been taken. Cash disbursements, cash receipts, and bank reconciliation functions have been segregated to create separation of duties. Internal controls have been implemented to support processes that include level of review, approval, and posting of transactions while keeping these functions segregated. Policies and procedures will be updated to reflect these controls by the quarter ending March 2022.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-002 Internal Controls over Journal Entries

Classification:

Material Weakness

Criteria:

Internal controls over journal entries are a key component of an organization's control environment, which help to mitigate the risk of material misstatement and/or material omission of data for financial reporting purposes. Entities should have internal controls over how transactions are to be recorded in the general ledger. In addition, there should be proper segregation of duties between the preparation, approval, and posting of journal entries.

Condition/Context:

During our audit we noted several individuals unilaterally have the ability to prepare and post journal entries into the general ledger. Also, we observed that journal entries are not subject to review for completeness and accuracy by an individual separate from the preparer.

Effect:

The lack of proper internal controls over journal entries may result in a material misstatement of the entity's financial statements that would not be prevented or detected and corrected on a timely basis.

Cause:

Prior to November 1, 2020, CalMHSA employed an administrative firm, to manage the entity. Effective November 1, 2020, the administrative firm's contract was terminated, resulting in CalMHSA independently operating and managing its entity, with its own staff and management. During this transition, a formal control environment over journal entries had not been established and implemented by CalMHSA.

Recommendation:

We recommend that management establish a thorough system of internal controls over journal entries, which are formally documented through policies and standard operating procedures. The policies should clearly outline procedures for preparing, reviewing, approving, and posting journal entries and segregate each of those functions. Furthermore, management should maintain documentation identifying the individual involved with each step of the journal entry internal control process. Creating and establishing such policies and internal controls will help management significantly mitigate the risk of materially misstating the financial statements.

Management's Response:

We agree with the auditors' comments, and the following action has been taken. Internal controls have been established which separate the preparation, review, approval, and posting of journal entries. The implementation of a new financial system provides the tracking of this process and approvals. Policies and procedures will be updated to reflect these controls by the quarter ending March 2022.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-003 Information System Controls

Classification:

Material Weakness

Criteria:

Internal controls over accounting information systems in relation to the general ledger is vital to every organization's control environment. Entities should have internal controls including policies and procedures regarding user access to the general ledger, as well as documented, periodic reviews of the user access credentials possessed by its employees. Where adequate segregation of duties cannot be employed to separate the ability to assign user rights from those who have access to the general ledger to process transactions, detective and monitoring internal controls should be established that adequately monitor user activity of the general ledger.

Condition/Context:

During our audit, we observed that management did not periodically monitor employees' access credentials and levels of access within the financial applications. In addition, we identified two individuals who maintained the ability to assign user rights who also had operational roles in finance.

Effect:

Improper segregation of duties among personnel responsible for changes to user account security settings while also performing in an operational capacity during the regular course of business could lead to management override of internal controls. The absence of appropriate user access provisioning and monitoring could result in unauthorized transactions recorded in the financial reporting system, where management would not be able to detect such activity timely.

Cause:

Management had not assigned an individual outside of the finance operational role with the responsibility to provision or monitor user access.

Recommendation:

We recommend adopting a formal policy in which both the IT department and management perform periodic and documented reviews of the general ledger access rights of each employee commensurate with their appropriate level of responsibilities and job function. Standard practice for such review is annual, however, more frequent reviews can be performed if desired. Further, management should ensure that those provisioning user access are separate from those who are processing transactions in the general ledger. The responsibility for provisioning user access is typically performed by a business or system analyst within the IT department. This individual should work with the manager/director of each department, to ensure user access credentials are appropriate for each employee, in accordance with their typical responsibilities.

Management's Response:

We agree with the auditors' comments, and the following action has been taken. A new financial system has been implemented and the use of an outside administrator provides user access monitoring. The outside system administrator has the responsibility of creating users and assigning access based on the needs of the position, removing CalMHSA staff from this function. Policies will be updated to reflect these controls by the quarter ending March 2022.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-004 Management Review over Service Organization Controls (SOC) Reports

Classification:
Significant Deficiency

Criteria:
Reports on controls at a service organization (SOC reports) are intended to meet the needs of entities who use service organizations in evaluating the effect of its internal controls on the user entity. Management or the Information Technology (IT) department should review any and all SOC reports available for software or third-party services that service a significant area of the user entity's operations. This review of external party internal controls serves to protect user entities against risk that could threaten their financial well-being and organizational internal control environment.

Condition/Context:
During our walkthrough of internal controls over Payroll, we noted that CalMHSA did not review the SOC report(s) made available by, the entity's third-party Human Resources and Payroll administrator. Additionally, we did not observe controls and processes, formal or informal, that document how Management is to perform the review of SOC reports.

Effect:
Lack of formal review and documented assessment of the SOC reports may lead to unidentified internal control gaps at a service organization.

Cause:
Prior to November 1, 2020, CalMHSA employed an administrative firm, specializing in JPA management. Effective November 1, 2020, the administrative firm's contract was terminated, resulting in CalMHSA independently operating and managing its entity, with its own staff and management. However, a formal control environment has not yet been established and implemented, since becoming an independent entity.

Recommendation:
We recommend that Management obtain SOC reports for service organizations in a timely manner relative to their fiscal year audits, implement formal procedures to review the SOC reports, and document Management's assessment of relevant internal control findings, their potential impact and complementary user entity controls. Standard practice for performing such review is typically once per year, however should the SOC report period only cover a portion of entity's fiscal year, we recommend obtaining a Gap Letter from the service organization(s) so that Management can further evaluate their service providers internal controls relevant to the entity's reporting period.

Management's Response:
We agree with the auditors' comments, and the following action will be taken. Procedures will be updated by the quarter ending March 2022 to ensure SOC reports for service organizations are reviewed on an annual basis.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-005 Governmental Fund Period of Availability Criterion

Classification:

Material Weakness

Criteria:

Generally accepted accounting principles requires that governmental fund revenue should be recognized in the accounting period in which they become both measurable and available. The term available means that they are collected or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The length of time selected by a government during which revenues are considered available, which typically falls between thirty days and one year, defines the critical aspect of when revenues are recognized in a governmental fund.

Condition/Context:

During our audit we noted that management did not have a policy in place to define the period of availability for recognizing governmental fund revenues. Revenue not collected during the period of availability is reported as unavailable revenue. We noted management had inadvertently recorded both unavailable revenue and unearned revenue as deferred revenue.

Effect:

Management implemented a 90-day availability period within their summary of significant accounting policies. As a result, we proposed and management reflected the following net adjustments:

- A net decrease of deferred revenue in the amount \$6,169,436. A net increase of charges for services in the amount of \$1,187,299 and a net increase of intergovernmental revenue in the amount of \$4,982,137.
- A reclass of \$24,532,354 from deferred revenue to unearned revenue in the amount of \$19,460,358 and to unavailable revenues in the amount of \$5,071,996.

Cause:

Management did not design or implement internal controls to ensure that governmental funds recognized revenue only when both measurable and available in accordance with generally accepted accounting principles.

Recommendation:

We recommend that management strengthen their review process to ensure that unearned revenue and unavailable revenue is recorded in accordance to generally accepted accounting principles.

Management's Response:

We agree with the auditors' comments, and the following action has been taken. A period of availability of 90 days was implemented during this Fiscal Year 2020-2021 review. Policies will be updated by the quarter ending March 2022 to reflect this recent management decision.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-006 Review and Approval of Employee Timecards

Classification:

Significant Deficiency

Criteria:

All employee timecards should be reviewed by their respective supervisors, to certify the respective employee's time, as well as provide assurance that the payroll records are accurate.

Condition/Context:

During our walkthrough of internal controls over payroll for federal awards, as well as through observance of timecards during our Allowable Cost testing, there was no formal review of employee timecards between November 1, 2020 and January 1, 2021. During this period, the authority's policy for submitting timecards was for each employee to email an excel spreadsheet of their time for period, to CalMHSA's Human Resources Consultant for processing, but no formal review and approval of that time was noted.

Effect:

Employee timecards error between November 1, 2020 and January 1, 2021 may not be corrected on a timely basis.

Cause:

Prior to November 1, 2020, CalMHSA employed an administrative firm, specializing in JPA management. Effective November 1, 2020, the administrative firm's contract was terminated, resulting in CalMHSA independently operating and managing its entity, with its own staff and management. However, a formal control environment has not yet been established and implemented, since becoming an independent entity. Effective January 1, 2021, CalMHSA contracted with a 3rd party payroll administrator in order to maintain a more formal timekeeping system, which does allow for documentation of formal review and approval of employee timecards.

Recommendation:

We recommend management ensure all employee timecards are reviewed on a timely basis. Since contracting with the 3rd party payroll administrator, timecards are noted to be formally reviewed.

Management's Response:

We agree with the auditors' comments, and the following action has been taken. Controls have been implemented and all employee timecards are reviewed and approved in a timely manner through a third-party payroll administrator.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

2021-007 Financial Reporting Deficiency in Internal Control

Classification:

Material Weakness

Criteria:

Internal controls over the closing and financial reporting process should be in place to ensure CALMHSA has the ability to initiate, record, process and report accurate financial data consistent with generally accepted accounting principles. In addition, management should have internal controls to comply with the California Government Code 6505.5, whereby CALMHSA is required to report in writing on the first day of July, October, January, and April of each year to the agency or entity and to the contracting parties to the agreement the amount of money CALMHSA holds for the agency or entity, the amount of receipts since CALMHSA's last report, and the amount paid out since CALMHSA last report.

Condition/Context:

During the year-end testing procedures, we identified several adjustments or errors in financial statement disclosures relating to accounts payable, and compensated absences. These adjustments were reflected in the financial statements to ensure balances were properly accounted and disclosed in accordance with Generally Accepted Accounting Principles. The following is a summary of each adjustment:

- **Accounts Payable** – Management missed recording an accrual in the General Fund for services rendered in June 2021 in the amount of \$325,614 during the year-end close.
- **General Government Expenses** – For three of our sample selections, supporting documentation in the form of invoices and proof of payment could not be located within CalMHSA accounting records. Lack of documentation for these three samples resulted in costs of \$83,342 which could not be substantiated.
- **Compensated Absences** – Management incorrectly recorded the increase in compensated absences liability in the amount of \$122,718 as an addition to assets in the governmental activities, which should have been recorded as increase in functional expenses. Management corrected the error in classification according to guidelines set-forth by GASB Statement No. 16.

In addition, we noted that CALMHSA did not timely compile quarterly financial reporting as required by California Government Code 6505.

Effect:

A number of adjustments to the financial statements and disclosures were required during the audit to properly present the Authority's financial statements in accordance with Generally Accepted Accounting Principles. CALMHSA did not timely report to the governing body the amount of money held, receipts, and paid out on a quarterly basis.

Cause:

The Authority's internal control over financial statements did not function at a sufficient level of precision to identify the misstatement during the review process.

(Continued)

CALIFORNIA MENTAL HEALTH SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2021

Recommendation:

We recommend management create and adopt a policy to ensure all transactions and activities are properly documented, accounted for, and maintained in the accounting records. Furthermore, periodic reviews should be performed to ensure the policy is operating effectively.

Management's Response:

We agree with the auditors' comments, and the following action will be taken. Policies will be updated by the quarter ending March 2022 to assist in tracking and reviewing transactions to ensure accounting records are properly maintained.