

Houston Recovery Center, LGC
(A Component Unit of the City of Houston)

Financial Statements
and Single Audit Reports
for the year ended June 30, 2020

Houston Recovery Center, LGC

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Independent Auditors' Report

To the Board of Directors of
Houston Recovery Center, LGC:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Houston Recovery Center, LGC (a component unit of the City of Houston), as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise Houston Recovery Center, LGC'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our audit for the year ended June 30, 2020 was also conducted under 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 our audits 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Houston Recovery Center, LGC, as of June 30, 2020 and 2019, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

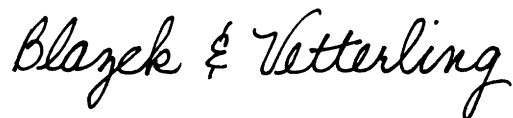
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended June 30, 2020 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of Houston Recovery Center, LGC'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Houston Recovery Center, LGC'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 Houston Recovery Center, LGC's internal control over financial reporting and compliance.



September 25, 2020

Houston Recovery Center, LGC
Management's Discussion and Analysis
For the years ended June 30, 2020 and 2019
(unaudited)

The following discussion and analysis of Houston Recovery Center, LGC's (Houston Recovery Center) financial performance provides an overview of the financial activities for the years ended June 30, 2020 and 2019. This discussion should be read in conjunction with Houston Recovery Center's financial statements, which follow this section.

Financial Highlights

Financial highlights for the fiscal year ended June 30, 2020 include:

- Houston Recovery Center's total net position decreased by \$440 thousand.
- Expenditures under Houston Recovery Center's two federally-funded programs were approximately \$1.5 million, exceeding the \$750,000 threshold for requiring a single audit.
- Houston Recovery Center recognized revenue of \$1.65 million in a grant from the City of Houston (the City), \$1.5 million in federal grants through the State of Texas, and \$637 thousand in grants from other local governments in its statement of activities.

Financial highlights for the fiscal year ended June 30, 2019 include:

- Houston Recovery Center's total net position increased by \$502 thousand.
- \$3.1 million of Houston Recovery Center's expenses were program expenses in connection with its sobriety center and two new programs, opioid response and HIV/HEP-C prevention.
- Houston Recovery Center recognized revenue of \$2.4 million in grants from the City, \$672 thousand in federal grants through the State of Texas, and \$591 thousand in grants from other local governments in its statement of activities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Houston Recovery Center's basic financial statements. The basic financial statements present combined government-wide and governmental fund financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Government-wide financial statements reflect an economic resources measurement focus and are prepared using the accrual basis of accounting. The government-wide financial statements are designed to provide readers with a broad overview of Houston Recovery Center's finances, in a manner similar to a private-sector business.

The statement of net position shows the financial position of Houston Recovery Center at year end by presenting Houston Recovery Center's assets and liabilities, with net position representing the difference between assets and liabilities. The statement of activities presents information showing changes in Houston Recovery Center's net position during the year. Changes in net position are reported when an underlying event giving rise to a change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

Governmental fund financial statements reflect a current financial resources measurement focus and are prepared using the modified accrual basis of accounting. Unlike the government-wide financial statements, the governmental fund financial statements present information showing the near-term inflows and outflows of spendable resources and the balances of spendable resources at year end.

Condensed Government-Wide Financial Information and Financial Analysis

	AS OF JUNE 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Condensed Statements of Net Position:</i>			
Total assets	\$ 1,339,164	\$ 1,884,428	\$ 1,148,973
Total liabilities	\$ 292,104	\$ 398,289	\$ 165,209
Total net position	\$ 1,047,060	\$ 1,486,139	\$ 983,764

The assets of Houston Recovery Center consist primarily of cash and government grant receivables. Liabilities consist primarily of accrued operating expenses, including accrued salaries, deferred revenue and refundable advances. The decrease in assets at June 30, 2020, as compared to June 30, 2019, is the result of a \$473,000 net loss and resulting decrease in the cash balance, and a \$100,000 decrease in contributions receivable. The decrease in liabilities at June 30, 2020, as compared to June 30, 2019, is due primarily to the return of a \$138,000 refundable advance to the Texas Health and Human Services Commission (the Commission).

The increase in assets at June 30, 2019, as compared to June 30, 2018, is the result of increases in the amount and timing of recognition of governmental funding, as well as a contribution receivable of \$100,000 at June 30, 2019. The increase in liabilities at June 30, 2019, as compared to June 30, 2018, is due primarily to the recording of a \$138,000 refundable advance from the Commission at June 30, 2019, due to reimbursement by the Commission of expenditures later determined to not be allowable under the terms of the grant award that ended April 30, 2019.

	FOR THE YEAR ENDED JUNE 30		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Condensed Statements of Activities:</i>			
Expenses:			
Program services	\$ 3,714,973	\$ 3,054,727	\$ 2,416,413
Management and general	564,652	399,434	276,686
Fundraising	146,997	60,597	50,181
Total expenses	<u>4,426,622</u>	<u>3,514,758</u>	<u>2,743,280</u>
Revenue:			
Grant from City of Houston – interlocal agreement	1,646,624	1,646,624	1,706,625
Grant from City of Houston – 1115 Waiver Program			
Funds (HDHHS) – performance-based		799,999	959,999
Federal grants	1,509,879	672,359	
Other government grants	637,078	591,028	304,359
Contributions	161,546	297,425	51,146
Other income	32,416	9,698	10,703
Total revenue	<u>3,987,543</u>	<u>4,017,133</u>	<u>3,032,832</u>
CHANGES IN NET POSITION	(439,079)	502,375	289,552
Net position, beginning of year	<u>1,486,139</u>	<u>983,764</u>	<u>694,212</u>
Net position, end of year	<u>\$ 1,047,060</u>	<u>\$ 1,486,139</u>	<u>\$ 983,764</u>

The statements of activities show the expenses and revenue of Houston Recovery Center and the corresponding effect on net position. The majority of Houston Recovery Center's revenue is provided by grants from the City, from federal and state agencies, and from local governmental agencies and management districts. Expenses increased substantially between the years ended June 30, 2020 and 2019 due primarily to increased activity under three government grants funding two Houston Recovery Center programs (opioid response and HIV/HEP-C prevention), which resulted in an increase of \$804,000 in related expenses. Revenues under these grants also increased by \$804,000, but these increases were offset by decreases of \$800,000 in the 1115 Waiver Program Funds grant through the City, which ended in February 2019.

Revenues were fairly consistent between the years ended June 30, 2020 and 2019 after having increased significantly from the June 30, 2018 year as a result of expanded programs. Expenses increased each year from June 30, 2018 through June 30, 2020 as the expanded programs grew.

Contacting Houston Recovery Center's Financial Management

The financial report is designed to discuss issues that may be material to the operation of Houston Recovery Center. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director, Houston Recovery Center, LGC, 150 North Chenevert Street, Suite 100, Houston, Texas 77002.

Houston Recovery Center, LGC

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2020

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF NET POSITION
ASSETS			
Cash	\$ 772,639		\$ 772,639
Government grant receivable	353,533		353,533
Prepaid expenses and other assets	88,309	\$ 8,580	96,889
Capital assets, net of depreciation (Note 5)	<u> </u>	<u>116,103</u>	<u>116,103</u>
TOTAL ASSETS	<u>\$ 1,214,481</u>	<u>\$ 124,683</u>	<u>\$ 1,339,164</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 168,809		\$ 168,809
Payroll liabilities	<u>123,295</u>	<u> </u>	<u>123,295</u>
TOTAL LIABILITIES	<u>292,104</u>	<u>\$ 0</u>	<u>\$ 292,104</u>
FUND BALANCE / NET POSITION			
Nonspendable – prepaid expenses and other assets	88,309	\$ (88,309)	
Restricted for specific programs	16,600	(16,600)	
Unassigned	<u>817,468</u>	<u>(817,468)</u>	
TOTAL FUND BALANCE	<u>922,377</u>	<u>(922,377)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,214,481</u>		
Net investment in capital assets		116,103	\$ 116,103
Restricted for specific programs		16,600	16,600
Unrestricted		<u>914,357</u>	<u>914,357</u>
TOTAL NET POSITION		<u>\$ 124,683</u>	<u>\$ 1,047,060</u>

See accompanying notes to financial statements.

Houston Recovery Center, LGC

Governmental Fund Balance Sheet and Statement of Net Position as of June 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF NET POSITION
ASSETS			
Cash	\$ 1,321,902		\$ 1,321,902
Government grant receivable	258,437		258,437
Contributions receivable	100,000		100,000
Prepaid expenses and other assets	79,305		79,305
Capital assets, net of depreciation (Note 5)	<u> </u>	\$ 124,784	<u>124,784</u>
TOTAL ASSETS	<u>\$ 1,759,644</u>	<u>\$ 124,784</u>	<u>\$ 1,884,428</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 94,216		\$ 94,216
Payroll liabilities	118,839		118,839
Deferred revenue	47,443		47,443
Refundable advance	<u>137,791</u>	<u> </u>	<u>137,791</u>
TOTAL LIABILITIES	<u>398,289</u>	<u>\$ 0</u>	<u>\$ 398,289</u>
FUND BALANCE / NET POSITION			
Nonspendable – prepaid expenses and other assets	79,305	\$ (79,305)	
Unassigned	<u>1,282,050</u>	<u>(1,282,050)</u>	
TOTAL FUND BALANCE	<u>1,361,355</u>	<u>(1,361,355)</u>	
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,759,644</u>		
Net investment in capital assets		124,784	\$ 124,784
Unrestricted		<u>1,361,355</u>	<u>1,361,355</u>
TOTAL NET POSITION		<u>\$ 124,784</u>	<u>\$ 1,486,139</u>

See accompanying notes to financial statements.

Houston Recovery Center, LGC

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2020

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 3,691,733	\$ 23,240	\$ 3,714,973
Management and general	560,864	3,788	564,652
Fundraising	145,868	1,129	146,997
Deposit on long-term lease	8,580	(8,580)	
Capital expenditures	<u>19,476</u>	<u>(19,476)</u>	
Total expenditures / expenses	<u>4,426,521</u>	<u>101</u>	<u>4,426,622</u>
REVENUE:			
Grant from City of Houston – interlocal agreement	1,646,624		1,646,624
Federal grants	1,509,879		1,509,879
Other government grants	637,078		637,078
Contributions	161,546		161,546
Other income	<u>32,416</u>		<u>32,416</u>
Total revenue	<u>3,987,543</u>		<u>3,987,543</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	(438,978)	(101)	(439,079)
Fund balance / net position, beginning of year	<u>1,361,355</u>	<u>124,784</u>	<u>1,486,139</u>
Fund balance / net position, end of year	<u>\$ 922,377</u>	<u>\$ 124,683</u>	<u>\$ 1,047,060</u>

See accompanying notes to financial statements.

Houston Recovery Center, LGC

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance and Statement of Activities for the year ended June 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 4)	STATEMENT OF ACTIVITIES
EXPENDITURES / EXPENSES:			
Program services	\$ 3,042,393	\$ 12,334	\$ 3,054,727
Management and general	397,553	1,881	399,434
Fundraising	60,455	142	60,597
Capital expenditures	<u>116,910</u>	<u>(116,910)</u>	<u> </u>
Total expenditures / expenses	<u>3,617,311</u>	<u>(102,553)</u>	<u>3,514,758</u>
REVENUE:			
Grant from City of Houston – interlocal agreement	1,646,624		1,646,624
Grant from City of Houston – 1115 Waiver Program			
Funds (HDHHS) – performance-based	799,999		799,999
Federal grants	672,359		672,359
Other government grants	591,028		591,028
Contributions	297,425		297,425
Other income	<u>9,698</u>		<u>9,698</u>
Total revenue	<u>4,017,133</u>		<u>4,017,133</u>
EXCESS OF REVENUE OVER EXPENDITURES / CHANGES IN NET POSITION	399,822	102,553	502,375
Fund balance / net position, beginning of year	<u>961,533</u>	<u>22,231</u>	<u>983,764</u>
Fund balance / net position, end of year	<u>\$ 1,361,355</u>	<u>\$ 124,784</u>	<u>\$ 1,486,139</u>

See accompanying notes to financial statements.

Houston Recovery Center, LGC

Notes to Financial Statements for the years ended June 30, 2020 and 2019

NOTE 1 – ORGANIZATION

Organization – Houston Recovery Center, LGC (Houston Recovery Center), a component unit of the City of Houston (the City), is a Texas local government corporation. The City created Houston Recovery Center to aid and to act on behalf of the City to accomplish a governmental purpose of the City; namely, of staffing, managing, and operating a sobering center for the treatment and management of persons under the influence of alcohol and other drugs and to provide those persons with information on and referrals to community-based outpatient services for the purposes of preservation of law enforcement, judicial, and medical resources in the city limits and its extra-territorial jurisdiction. Houston Recovery Center's formation was approved by the City Council on May 16, 2012, and began operations on April 10, 2013.

Houston Recovery Center's Board of Directors are appointed by the Mayor of the City and approved by City Council. Houston Recovery Center receives a significant amount of funding from an interlocal agreement with the City in which funding is received subject to the City's approval of Houston Recovery Center's annual budget. Funding received under this agreement must be expended by Houston Recovery Center in accordance with the annual budget. Houston Recovery Center also receives federal, state, and local funding through state and local governments and management districts.

Federal income tax status – Houston Recovery Center is a local government corporation created to accomplish a governmental purpose of the City and is not subject to federal income tax. Contributions to Houston Recovery Center are deductible under §501(c)(3) of the Internal Revenue Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Measurement focus and basis of accounting – Measurement focus refers to *what* is being expressed in reporting financial position and performance, that is, *which* resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines *whether* a fund balance sheet or statement of net position reports financial or economic resources. Basis of accounting refers to *when* those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

Governmental funds in the governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. *Measurable* means the amount of the transaction is known or reasonably estimable. *Available* refers to amounts collected in the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, generally within 60 days after year end. Expenditures are recognized when the related liability is incurred. The General Fund is used to account for all revenues and expenses applicable to the general operations of Houston Recovery Center that are not required, either legally or by governmental accounting standards, to be accounted for in another fund.

Governmental funds in the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when it is earned and becomes measurable and expenses are recognized in the period incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Cash consists of demand deposits. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Houston Recovery Center will be unable to recover deposits. At June 30, 2020, the carrying amount and the bank balance of Houston Recovery Center's demand deposits were \$772,639 and \$796,703, respectively. Amounts on deposit that are in excess of the Federal Deposit Insurance Corporation limit of \$250,000 are collateralized by a security agreement with the bank.

Fund balance is classified based on the relative strength of spending constraints placed upon the purposes for which resources can be used. Nonspendable fund balance includes amounts that are not in spendable form. Restricted fund balance can only be used for purposes specified by resource providers. Unassigned fund balance is available for Houston Recovery Center's future use for any purpose. When both restricted and unassigned fund balances are available for use, it is Houston Recovery Center's policy to use the restricted fund balance first.

Net position represents the difference between assets and liabilities. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, and debt attributable to the acquisition, construction, or improvement of those assets, if any. Restricted net position can only be used for purposes specified by resource providers. Unrestricted net position is available for general use.

Grants – Under the accrual basis of accounting, receivables and revenues from grants are recognized, net of uncollectible amounts, when all applicable eligibility requirements, including acceptance and approval of performance requirements from funding sources, are met provided the commitment is verifiable and the resources are measurable and probable of collection. Under the modified basis of accounting, grant receivables and revenues are recognized in the period in which all applicable eligibility requirements have been met and the resources are available and measurable. Funds received in advance of eligibility requirements being met are deferred on both the accrual and modified basis of accounting.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue, expenditures and expenses and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 3 – NEW ACCOUNTING STANDARD

GASB has issued Statement No. 87, *Leases*, which is effective for Houston Recovery Center for fiscal year 2022. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Houston Recovery Center has not yet determined the impact of implementing this new statement.

NOTE 4 – ADJUSTMENTS BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

Total fund balance reported in the governmental fund balance sheet differs from net position reported in the government-wide statement of net position. Differences occur because of the current financial resources focus of the governmental fund statements and the long-term economic focus of the government-wide statement of net position and statement of activities. The provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, impose this change in focus. The adjustments show the difference between the statements that result from this difference in measurement focus.

Adjustments of \$124,683 and \$124,784, primarily relating to capital asset transactions and depreciation, are reported in the statements of net position for the years ended June 30, 2020 and 2019, which differ from the respective governmental fund balance sheets. Capital assets and deposits on long-term leases used in governmental activities are not current financial resources, and therefore, are not reported in the fund financial statements.

Adjustments from the governmental fund statements of revenue, expenditures, and changes in fund balance to the statement of activities consist of \$101 and \$102,553 for the years ended June 30, 2020 and 2019. The adjustments consist of capital outlays and deposits on long-term leases which are reported in the governmental funds as expenditures because such outlays use current financial resources. The statements of activities recognize the costs of capital outlays allocated over estimated useful lives as depreciation expense.

NOTE 5 – CAPITAL ASSETS

A summary of the activity related to capital assets for the year ended June 30, 2020 is as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>ENDING BALANCE</u>
Depreciable capital assets:				
Leasehold improvement		\$ 4,337		\$ 4,337
Furniture, fixtures, and equipment	\$ 62,183	15,139		77,322
Vehicles	<u>92,234</u>			<u>92,234</u>
Depreciable capital assets, at cost	<u>154,417</u>	<u>19,476</u>		<u>173,893</u>
Accumulated depreciation:				
Leasehold improvement		1,843		1,843
Furniture, fixtures, and equipment	27,319	16,798		44,117
Vehicles	<u>2,314</u>	<u>9,516</u>		<u>11,830</u>
Total accumulated depreciation	<u>29,633</u>	<u>28,157</u>		<u>57,790</u>
Capital assets, net of depreciation	<u>\$ 124,784</u>	<u>\$ (8,681)</u>	<u>\$ 0</u>	<u>\$ 116,103</u>

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Lease commitments – Houston Recovery Center entered into a partial assignment and assumption of a noncancelable operating lease agreement with the City in which the City grants Houston Recovery Center the use of certain building space. The agreement includes Houston Recovery Center’s commitment to pay predetermined monthly rent as well as operating expenses, which are determined annually based on the prior year’s operating expense. In addition, in 2020, Houston Recovery Center entered into a three-year operating lease for additional office space.

Related occupancy expense of \$272,422 and \$205,128 was recognized during 2020 and 2019, respectively, under these leases. Future minimum lease payments at June 30, 2020 are due as follows:

2021	\$ 282,222
2022	270,664
2023	<u>18,205</u>
Total	<u>\$ 571,091</u>

Contingencies – Houston Recovery Center receives grants from federal, state, and local funding sources that require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by Houston Recovery Center with the terms of the contracts. Management believes such disallowances, if any, would not be material Houston Recovery Center’s net position or changes in net position.

Houston Recovery Center, LGC

Schedule of Expenditures of Federal Awards for the year ended June 30, 2020

<u>FEDERAL GRANTOR</u>		Pass-through				
<u>Pass-through Grantor</u>	<u>CFDA</u>	<u>Contract</u>	<u>Award</u>	<u>Federal</u>	<u>Subrecipient</u>	
<u>Program Title & Period</u>	<u>Number</u>	<u>Number</u>	<u>Amount</u>	<u>Expenditures</u>	<u>Expenditures</u>	
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
#1 Substance Abuse and Mental Health Services Projects of Regional and National Significance						
09/30/18 – 09/29/19	93.243	1H79TI080624-01	\$500,000	\$ 151,883	\$ 76,166	
09/30/19 – 09/30/20	93.243	3H79TI080624-02S1	\$500,000	<u>458,111</u>	<u>125,275</u>	
Total CFDA 93.243				<u>609,994</u>		
Passed through the Texas Health and Human Services Commission:						
#2 Opioid STR						
State Targeted Response to the Opioid Crisis Grants						
05/19/19 – 09/30/19	93.788	HHS000357900001	\$600,000	206,502		
10/01/19 – 09/30/20	93.788	HHS000357900001	\$600,000	529,966		
Passed through the University of Texas Health Science Center:						
#3 Opioid STR						
State Targeted Response to the Opioid Crisis Grants						
03/01/18 – 09/30/20	93.788	HHS000113200001	\$170,864	<u>146,070</u>		
Total CFDA 93.788				<u>882,538</u>		
Total U. S. Department of Health and Human Services				<u>1,492,532</u>	<u>201,441</u>	
TOTAL FEDERAL AWARDS				<u>\$1,492,532</u>	<u>\$ 201,441</u>	

See accompanying note to schedule of expenditures of federal awards.

Houston Recovery Center, LGC

Note to Schedule of Expenditures of Federal Awards for the year ended June 30, 2020

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance, and include costs that are recognized as expenses in Houston Recovery Center's financial statements in conformity with generally accepted accounting principles. Houston Recovery Center has elected not to use the 10% de minimus rate.

Because the schedule presents only a selected portion of the operations of Houston Recovery Center, it is not intended to and does not present the net position or the changes in net position of Houston Recovery Center.

**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors of
Houston Recovery Center, LGC:

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 Houston Recovery Center, LGC (Houston Recovery Center), which comprise the statement of net position as of June 30, 2020 and the related statement of activities for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Houston Recovery Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Houston Recovery Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Houston Recovery Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houston Recovery Center'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 determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Houston Recovery Center'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.

Blazek & Vetterling

September 25, 2020

**Independent Auditors' Report on Compliance for Each
Major Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

To the Board of Directors of
Houston Recovery Center, LGC:

Report on Compliance for Each Major Federal Program

We have audited Houston Recovery Center, LGC's (Houston Recovery Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Houston Recovery Center's major federal programs for the year ended June 30, 2020. Houston Recovery Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Houston Recovery Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Houston Recovery Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Houston Recovery Center's compliance.

Basis for Qualified Opinion on CFDA 93.788 – Opioid STR

As described in the accompanying schedule of findings and questioned costs, Houston Recovery Center did not comply with requirements regarding CFDA 93.788 Opioid STR as described in finding #2020-002 for Allowable Costs. Compliance with such requirements is necessary, in our opinion, for Houston Recovery Center to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 93.788 – Opioid STR

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Houston Recovery Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings #2020-003 and #2020-004. Our opinion on the major federal program is not modified in respect to this matter.

Houston Recovery Center's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Houston Recovery Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Houston Recovery Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Houston Recovery Center's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Houston Recovery Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding #2020-002 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings #2020-001, #2020-003, and #2020-004 to be significant deficiencies.

Houston Recovery Center's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Houston Recovery Center's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Blazek & Vetterling

September 25, 2020

Houston Recovery Center, LGC

Schedule of Findings and Questioned Costs for the year ended June 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors’ report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Program or Cluster</u>
93.788	Opioid STR

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

Finding #2020-001 – Significant Deficiency

Applicable federal program:

U. S. Department of Health and Human Services
CFDA #93.243
Substance Abuse and Mental Health Services Projects of Regional and National Significance
Contract #1H79TI080624-01
Contract years: 09/30/18 – 09/29/19
Contract #3H79TI080624-02S1
Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services
CFDA #93.788
Opioid STR
Passed through the Texas Health and Human Services Commission
Contract #HHS000357900001
Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center
Contract #HHS000113200001
Contract years: 03/01/18 – 09/30/20

Criteria: Preparation of Schedule of Expenditures of Federal Awards (SEFA) – In accordance with Uniform Guidance §200.508 and §200.510, management is to prepare a schedule of expenditures of federal awards (SEFA) for the period covered by the auditee’s financial statements which must include the total federal awards expended.

Condition and context: Houston Recovery Center was not able to identify all federal awards that were required to be included on the SEFA. Specifically, a subaward passed through a state entity with expenditures over \$150,000 in the fiscal year under audit was not properly identified as a federal program.

Cause: Policies and procedures have not been established to identify and properly track federally funded awards.

Effect: Failure to establish and maintain internal control procedures over the preparation of the SEFA may result in Houston Recovery Center not reporting all of the federal expenditures on its SEFA and improper determination of major programs.

Recommendation: Houston Recovery Center should develop policies and procedures to identify federally funded programs and to ensure that the SEFA includes all federal expenditures.

Views of responsible officers and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Finding #2020-002 – Material Weakness and Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services

CFDA #93.243

Substance Abuse and Mental Health Services Projects of Regional and National Significance

Contract #1H79TI080624-01

Contract years: 09/30/18 – 09/29/19

Contract #3H79TI080624-02S1

Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services

CFDA #93.788

Opioid STR

Passed through the Texas Health and Human Services Commission

Contract #HHS000357900001

Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center

Contract #HHS000113200001

Contract years: 03/01/18 – 09/30/20

Criteria: Allowable costs – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, §200.430 requires that charges to awards for salaries and wages be based on records that accurately reflect the work performed. These records must 1) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated; 2) reasonably reflect the total activity for which the employee is compensated; 3) comply with the established accounting policies and practices of the agency; and 4) support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one activity. Houston Recovery Center’s procedures for allocating payroll costs are not sufficient to ensure that costs are appropriately allocated amongst federal and other funding streams.

Condition and context: There are no written policies and procedures related to the process of preparing and compiling time studies or other actual time and effort inputs utilized for allocating payroll costs. Allocation sheets which form the basis for allocating payroll costs to federal and other funding streams were pre-populated based on grant budgets or on targets of time and effort spent on each grant program rather than being based on personnel activity reports or other actual time and effort inputs.

Questioned costs: Unknown

Cause: The finding occurred as a result of the lack of written policies and procedures for preparing and compiling time studies or personnel activity reports, and inappropriate procedures for allocating based on budgets or targets amongst federal and other funding streams.

Effect: Allocation of payroll costs may not properly reflect the time and effort expended on the specific federal program.

Recommendation: Houston Recovery Center should establish written policies and procedures and provide training to its employees on the policies and procedures for preparing and compiling personnel activity reports or time studies in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, §200.430.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Finding #2020-003 – Significant Deficiency and Other Non-Compliance

Applicable federal program:

U. S. Department of Health and Human Services
CFDA #93.243
Substance Abuse and Mental Health Services Projects of Regional and National Significance
Contract #1H79TI080624-01
Contract years: 09/30/18 – 09/29/19
Contract #3H79TI080624-02S1
Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services
CFDA #93.788
Opioid STR
Passed through the Texas Health and Human Services Commission
Contract #HHS000357900001
Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center
Contract #HHS000113200001
Contract years: 03/01/18 – 09/30/20

Criteria: Procurement – The Uniform Guidance §200.318 states that nonprofit organizations must:

- Have written procurement procedures that conform to federal and state laws and regulations as identified in the Uniform Guidance, Subtitle III Procurement Standards and other specific contractual requirements.
- Maintain records sufficient to detail the history of procurement. The records must include the rationale for the procurement method, selection of contract type, contractor or vendor selection or rejection, and the basis for the contracted price.

Condition and context: During the year ended June 30, 2020, Houston Recovery Center’s procurement policy did not conform the Uniform Guidance requirements. Additionally, although management asserts that procurement policies were utilized, supporting documentation of the process was not maintained. We tested support for 4 vendors with annual purchases greater than \$20,000, noting that the procurement decisions were not documented to reflect the rationale for the method of procurement, selection of contract type, contractor or vendor selection or rejection, and the basis for the contracted price.

Cause: Houston Recovery Center is not adequately documenting procurement decisions and does not have a written procurement policy that is in accordance with the Uniform Guidance.

Effect: Failure to have a procurement policy that is in accordance with the Uniform Guidance and a lack of documented procurement decisions could result in non-compliance and lack of competition in selected vendors.

Questioned costs: Unknown

Recommendation: Update procurement policy to be in compliance with the Uniform Guidance. Document procurement decisions reflecting the rationale for the method of procurement, selection of contract type, contractor or vendor selection or rejection, and the basis for the contracted price.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.

Finding #2020-004 – Significant Deficiency and Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services

CFDA #93.788

Opioid STR

Passed through the Texas Health and Human Services Commission

Contract #HHS000357900001

Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center

Contract #HHS000113200001

Contract years: 03/01/18 – 09/30/20

Criteria: Allowable costs – Management is responsible for having an internal control system in place to ensure that only allowable costs in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* §200.400 are recorded and allocated to federal awards. An effective internal control system includes a review of transactions for verification of accuracy as to amount and period and also requires retention of documentation supporting the transaction to evidence proper approval, and to provide accurate reporting of transactions.

Condition and context: During our testing of 25 non-payroll disbursements, we noted the following:

- 1 disbursement for \$315 lacked proof of payment in the form of a cancelled check or evidence of electronic disbursement.
- 1 disbursement for \$262 was expensed in the incorrect accounting period and appears to be unallowable.
- 1 disbursement of \$71 for kitchen supplies did not indicate on the support how the cost was related to the federal program.

In addition, in our testing of 5 monthly government reimbursement requests, we noted one request that lacked indication of independent review and approval.

Cause: Inadequate policies and procedures over charging costs to federal programs and over review and approval of the costs and the related reimbursement requests.

Effect: Failure to adequately establish and maintain effective internal controls over disbursements may result in unallowable costs being charged to a program.

Questioned costs: \$648

Recommendation: Re-emphasize procedures regarding review of all disbursement transactions to ensure that only allowable costs are coded to federal grants and that monthly reimbursement requests reflect evidence of independent review and approval.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.



CORRECTIVE ACTION PLAN

September 25, 2020

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Houston Recovery Center, LGC respectfully submits the following corrective action plan for the year ended June 30, 2020. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The findings from the June 30, 2020 schedule of findings and questioned costs is discussed below. The findings are numbered consistently with the numbers in the schedule.

Finding #2020-001 – Significant Deficiency

Applicable federal program:

U. S. Department of Health and Human Services

CFDA #93.243

Substance Abuse and Mental Health Services Projects of Regional and National Significance

Contract #1H79TI080624-01

Contract years: 09/30/18 – 09/29/19

Contract #3H79TI080624-02S1

Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services

CFDA #93.788

Opioid STR

Passed through the Texas Health and Human Services Commission

Contract #HHS000357900001

Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center

Contract #HHS000113200001

Contract years: 03/01/18 – 09/30/20

Condition and context: Houston Recovery Center was not able to identify all federal awards that were required to be included on the SEFA. Specifically, a subaward passed through a state entity with expenditures over \$150,000 in the fiscal year under audit was not properly identified as a federal program.

Recommendation: Houston Recovery Center should develop policies and procedures to identify federally funded programs and to ensure that the schedule of expenditures of federal awards includes all federal expenditures.

Planned corrective action: Houston Recovery Center will develop policies and procedures to identify federally-funded programs to ensure the SEFA includes all federal expenditures.

Responsible officer: Leonard Kincaid, Executive Director

Estimated completion date: November 1, 2020

Finding #2020-002 – Material Weakness and Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services

CFDA #93.243

Substance Abuse and Mental Health Services Projects of Regional and National Significance

Contract #1H79TI080624-01

Contract years: 09/30/18 – 09/29/19

Contract #3H79TI080624-02S1

Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services

CFDA #93.788

Opioid STR

Passed through the Texas Health and Human Services Commission

Contract #HHS000357900001

Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center

Contract #HHS000113200001

Contract years: 03/01/18 – 09/30/20

Condition and context: There are no written policies and procedures related to the process of preparing and compiling time studies or other actual time and effort inputs utilized for allocating payroll costs. Allocation sheets which form the basis for allocating payroll costs to federal and other funding streams were pre-populated based on grant budgets or on targets of time and effort spent on each grant program rather than being based on personnel activity reports or other actual time and effort inputs.

Recommendation: Houston Recovery Center should establish written policies and procedures and provide training to its employees on the policies and procedures for preparing and compiling personnel activity reports or time studies in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, §200.430.

Planned corrective action: Houston Recovery Center implemented quarterly time studies in the last quarter of the year ended June 30, 2020. Houston Recovery Center will develop written policies and procedures to ensure its personnel expenses are accurate, allowable, and properly allocated in compliance with *Uniform Administrative Requirements, Cost Principles and Audit Administrative for Federal Awards* §200.430(i)(1).

Responsible officer: Leonard Kincaid, Executive Director

Estimated completion date: December 1, 2020

Finding #2020-003 – Significant Deficiency and Other Non-Compliance

Applicable federal program:

U. S. Department of Health and Human Services
CFDA #93.243
Substance Abuse and Mental Health Services Projects of Regional and National Significance
Contract #1H79TI080624-01
Contract years: 09/30/18 – 09/29/19
Contract #3H79TI080624-02S1
Contract years: 09/30/19 – 09/30/20

U. S. Department of Health and Human Services
CFDA #93.788
Opioid STR
Passed through the Texas Health and Human Services Commission
Contract #HHS000357900001
Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center
Contract #HHS000113200001
Contract years: 03/01/18 – 09/30/20

Condition and context: During the year ended June 30, 2020, Houston Recovery Center’s procurement policy did not conform the Uniform Guidance requirements. Additionally, although management asserts that procurement policies were utilized, supporting documentation of the process was not maintained. We tested support for 4 vendors with annual purchases greater than \$20,000, noting that the procurement decisions were not documented to reflect the rationale for the method of procurement, selection of contract type, contractor or vendor selection or rejection, and the basis for the contracted price.

Recommendation: Update procurement policy to be in compliance with the Uniform Guidance. Document procurement decisions reflecting the rationale for the method of procurement, selection of contract type, contractor or vendor selection or rejection, and the basis for the contracted price.

Planned corrective action: Houston Recovery Center will develop a procurement policy in compliance with the Uniform Guidance and the City of Houston’s Purchasing Guidelines.

Responsible officer: Leonard Kincaid, Executive Director

Estimated completion date: December 1, 2020

Finding #2020-004 – Significant Deficiency and Other Noncompliance

Applicable federal program:

U. S. Department of Health and Human Services
CFDA #93.788
Opioid STR
Passed through the Texas Health and Human Services Commission
Contract #HHS000357900001
Contract years: 05/19/19 – 09/30/19 and 10/01/19 – 09/30/20

Passed through the University of Texas Health Science Center
Contract #HHS000113200001
Contract years: 03/01/18 – 09/30/20

Condition and context: During our testing of 25 non-payroll disbursements, we noted the following:

- 1 disbursement for \$315 lacked proof of payment in the form of a cancelled check or evidence of electronic disbursement.
- 1 disbursement for \$262 was expensed in the incorrect accounting period and appears to be unallowable.
- 1 disbursement of \$71 for kitchen supplies did not indicate on the support how the cost was related to the federal program.

In addition, in our testing of 5 monthly government reimbursement requests, we noted one request that lacked indication of independent review and approval.

Recommendation: Re-emphasize procedures regarding review of all disbursement transactions to ensure that only allowable costs are coded to federal grants and that monthly reimbursement requests reflect evidence of independent review and approval.

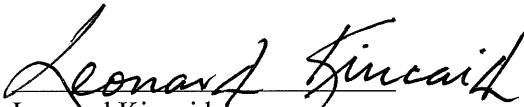
Planned corrective action: Houston Recovery Center will retrain all staff involved in purchasing and payables on allowable cost requirements as well as its current financial policies and procedures regarding proper approval required to complete disbursement transactions.

Responsible officer: Leonard Kincaid, Executive Director

Estimated completion date: December 15, 2020

If there are any questions regarding this plan, please call Leonard Kincaid at (713) 236-7802.

Sincerely,


Leonard Kincaid
Executive Director