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Management and the Audit and Compliance Committee
of the Board of Trustees
The Devereux Foundation d/b/a Devereux Advanced Behavioral
Health

In planning and performing our audit of the consolidated financial statements of The Devereux Foundation d/b/a Devereux Advanced Behavioral Health and Controlled Entities (Devereux) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Devereux's internal control. Accordingly, we do not express an opinion on the effectiveness of the Devereux'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 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 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.

During our audit, we noted the following deficiencies in internal control (as described above):

Allowance for Doubtful Accounts

Devereux's methodology to establish their allowance for doubtful accounts reserve is to record monthly bad debt expense for each center based on an estimate set during the budget process. On a quarterly basis, the centers perform an analysis using a modified specific identification approach as a benchmark to compare against what has been recorded in the general ledger. The recorded reserve is adjusted to this specific identification analysis if it shows the recorded reserve is materially different than the identified need. The quarterly analysis is not consistently performed by each center, as some specifically review accounts with balances greater than $5,000 and greater than 180 days old, while others review 100% of AR over 90 days. Centers are required to provide explanations on accounts they have reviewed as to why these receivables either are or are not collectible. This is submitted (with explanations) to the Corporate Office, where the explanations are reviewed. The centers' analyses are combined and a consolidated reserve percentage for the "sample environment" determined and applied for all accounts greater than 90 days by the National Director of Accounts Receivable.

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Management should consider formalizing a methodology to estimate the allowance for doubtful accounts that is consistently applied across the organization and formalize controls around the review process. If it is determined that a specific identification approach is most appropriate, a consistent process should be outlined and applied by all centers. Management judgement can be applied in addition to the standard methodology, as necessary. The review process of the "out of model" adjustments or top side manual adjustments can be reviewed and supported separately. The high degree of judgement that is applied in this process could create opportunities to manipulate earnings. Establishing a formal methodology that is consistently applied across the organization can help mitigate this risk.

Third Party Reserves

The majority of Devereux's services are rendered to clients through reimbursement programs administered by state and local government agencies. Certain government agency programs' administrative procedures preclude final determination of amounts due until Devereux's cost reports are audited or otherwise reviewed and settled upon by the agencies, which can take months or years. Devereux tracks each open cost report year and the calculated liability/receivable associated with that year is maintained in detail in the general ledger. While the majority of cost reports are handled and reviewed at the Corporate Office, the New York and Florida centers' functions are performed independent of corporate review. Presently, there is not a centralized review control which allows the Corporate Office to review and challenge all cost reports prior to filing.

Management should consider establishing a centralized review control surrounding estimated third-party liabilities, which would provide greater oversight and scrutiny over the process. These controls can be designed and documented to a level so they can be re-performed by someone who is not already intimately familiar with the process.

Management Response:
Management concurs with EY recommendations regarding the allowance for doubtful accounts and third party reserves. While management is confident that its current process provides for the fair statement of its allowance for doubtful accounts and third party reserve balances, applying consistency and enhancing the documentation around these process will strengthen internal controls. For example, during fiscal 2017 management required all centers to review 100% of accounts receivable balances over 90 days for the year-end allowance for doubtful accounts analysis.

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This communication is intended solely for the information and use of management and the Audit and Compliance Committee of the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young LLP

November 10, 2017