



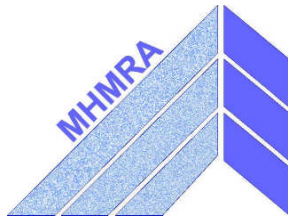
**OFFICE OF AUDIT SERVICES**

**AUDIT PLAN**

**SEPTEMBER 1, 2010 THROUGH AUGUST 31, 2011**

**MENTAL HEALTH MENTAL RETARDATION  
AUTHORITY OF HARRIS COUNTY**

**Henry Webb, Internal Auditor**



**AUDIT SERVICES  
MHMRA OF HARRIS COUNTY**

June 25, 2010

Steven B. Schnee, Ph.D.  
Board Audit Committee Members  
MHMRA of Harris County  
Harris County, Texas

Dear Dr. Schnee and Audit Committee Members:

I am pleased to submit to you the Fiscal Year 2011 Audit Plan. Previously, I had requested input as to possible areas of audit resource concentration from the Executive Staff and others. This document will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by Audit Services. The plan was developed partially by utilizing the Agency-Wide Updated Business Risk Assessment, which details specific risk profiles developed for each Agency unit. Generally, those areas selected for audit are taken from the high and moderate risk categories as determined by the profile.

This audit plan includes performance, compliance, revenue enhancement, and unannounced audits. Additionally, the plan provides for follow-up and special projects.

I hope you find this information useful and informative.

Respectfully submitted,

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Henry E. Webb, CFE  
Internal Auditor

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## OFFICE OF AUDIT SERVICES

### Audit Plan

#### Fiscal Year 2011

The audit plan serves as a working document that incorporates the assessments documented in the comprehensive Agency-wide business risk assessment, Executive Staff's, and department management's input and results from previous audits. As such, this plan will serve as the primary work plan to carry out the audit responsibilities in an efficient manner consistent with the priorities established by the Internal Auditor.

Due to requests for audit services, unknown extent of findings, and the required testing for the planned audits, the plan will be monitored and revised as necessary throughout the year.

#### **Background**

The Internal Audit Department is an independent, objective assurance and consulting activity that issues its findings and recommendations to the Executive Director, Agency Management, and Audit Committee Members. The mission of the Internal Audit Department is to provide the Executive Director, Agency Management, and Audit Committee Members with independent analyses, assurances, and recommendations concerning the adequacy and effectiveness of the Agency's internal control structure, effective safeguarding and utilization of Agency resources, and management's performance in carrying out assigned responsibilities.

The scope of activities carried out by the Audit Department may relate to any phase of Agency activities including:

- \* Evaluating and enhancing the Agency's accounting policies and procedures that constitute its internal control structure.
- \* Assessing compliance with appropriate policies, laws, and regulations. Evaluating the accuracy of reported data utilized by departmental and Agency management in making operational decisions.
- \* Appraising the economy, efficiency, and effectiveness of the Agency's organizations, programs, functions, and activities.
- \* Assessing the efficiency of operations and developing recommendations for cost savings.
- \* Ascertaining that all Agency revenue is maximized, safeguarded, and controlled.
- \* Ascertaining that all operational data is safeguarded and accurately maintained.
- \* Ascertaining the extent to which Agency assets are accounted for and safe guarded from loss.
- \* Investigating allegations of financial fraud, waste, and theft through various sources.

#### **Risk Assessment**

A formal risk assessment model is used extensively in the internal auditing profession and accepted as a tool for their annual planning. Risk assessment models are designed to identify areas of activity, organizational units, or functional processes within an organization that pose high inherent risk. In addition to risk assessment for audit planning, organizations are learning that risk assessment is also a critical tool for management.

**Risk Defined.** Risk is defined as the likelihood that an event or action could adversely affect the Agency's operations and/or clients. Types of risk include both "inherent risk" and "vulnerability."

- **Inherent risk** is the uncertainty or risk that is intrinsic to an operation based solely on the type of work performed, the amount of resources involved, or the complexity of the operations performed.
- **Vulnerability**, also known as “control risk,” is the probability that a particular risk might actually occur and have a negative impact on the organization if controls are not in place or functioning effectively to mitigate inherent risks.

**Assessing Risk.** Risk assessment is a process for systematically scoring (or rating) the relative impact of a variety of “risk factors.” A risk factor is an observable or measurable indicator of conditions or events that could adversely affect the organization. Risk factors are grouped around common themes, such as planning and performance, or public concern or perception. Risk factors can emphasize inherent risk (such as the factors in the organizational size and complexity group), or they can be indicators of both inherent risk and vulnerability risk such as worker’s compensation claims or performance trends.

We employed both quantitative and qualitative analysis as appropriate to assess risk for each factor. The weight of each risk factor was assigned based on relative importance and quality of information available on which to rate risk. We rated all activities for each risk factor on a scale of 1 (low risk) to 9 (high risk).

Internal Audit then calculated the overall weighted risk rating for each activity, stratified the resulting ratings in descending order by ninths<sup>7</sup>, and identified the top 20 percent. This scoring system enabled the highest risk activities to be identified.

Our results are intended to show where there is a greater impact when problems emerge, and therefore, where audit work or additional management attention could make a positive difference. Thus, the results serve as a focusing tool for targeting limited audit and management resources in the areas for greatest impact.

While the formal risk assessment model yields valuable information, it does contain limitations. Among the most important of these limitations is the fact that in order to be carried out, the assessment must be conducted at a very high level. Such an assessment gives a broad-brush picture of inherent risk without identifying how those risks manifest themselves in a specific unit or process. In the same way, as our model addresses controls, it can only indicate areas where vulnerability is more likely to exist, but does not indicate whether mitigating controls are actually in place and functioning as intended.

In order to determine how a broad risk category is working in a specific auditable unit and to determine whether effective controls are present, a much more detailed assessment at the micro level must be conducted. **This is the detailed risk and vulnerability assessment that is carried out in the planning phase of an audit.**

Risk assessment is the identification and analysis of relevant risk to the achievement of an organization’s objectives for the purpose of determining how those risks should be managed.

Risk assessment implies an initial determination of operating objectives, followed by a systematic identification of factors that could prevent each objective from being attained. In other words, it is an analysis of what could go wrong.

Not all risks are equal. Some are more likely than others to occur and as such, will have a greater impact than others if they occur. Once risks are identified, their probability and significance must be assessed.

Finally, having identified and assessed risk, management must decide how to deal with it. In some cases, the decision may be to control it; in others it may be to accept it.

The risk management process is an ongoing one. Internal and external factors constantly develop, presenting new hazards to the Agency. Change itself is a risk, and management must continually adapt its policies and procedures to manage its changing risks to a comfortable level.

Each unit at the Agency faces its own challenges and must assess how it will manage them to meet its objectives. A good internal control system can mitigate those risks, and Internal Audit can advise how to develop good internal controls.

The Internal Audit Department assesses business risks throughout the Agency. We seek input from Executive Staff, management, and our external auditors for possible risks and their likelihood or importance. The results of the assessment are used to prepare the annual audit plan.

Our results are intended to show where there may be greater impact if significant problems emerge, and thus serve as a focusing tool for targeting limited audit and management resources in the areas of greatest need.

In addition to identifying activities with higher risk ratings, we identified crosscutting themes that emerged through the course of our work. This information should provide focus for additional attention through audit projects or management focus.

The risk assessment was conducted in compliance with general standards of the Generally Accepted Government Auditing Standards (the Yellow Book).

The risk assessment model measured many different risk factors for each process, with the following key risk criteria factors more heavily considered in the achievement of the Agency’s strategic objectives.

**Final Scale for Risk Factor Groups**

Each risk factor (individual) was rated on a scale of 1 to 9 (low risk – high risk). However, for any given activity being rated, risk may have been rated higher for one factor and lower for another factor within the same group. Thus, the weighted average of all the risk factors within a group resulted in a final scale for the group that is less than nine.

<b>Risk Group:</b>	<b>Nature of Operations (A)</b>	<b>Number of Transactions (B)</b>	<b>Management External Influences (C)(D)</b>	<b>Systems (E)</b>	<b>Dollar Value Materiality (F)</b>	<b>Changes in Procedures Personnel (G)</b>	<b>Results of Prior Audits Management Interest (H)</b>	<b>Opportunities to Achieve Operating Benefits (I)</b>
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**Notes:**

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|---|--|--|
| <p>(A) 1. Significant Changes<br/>2. Pressure Meeting Objectives<br/>3. Clearly Defined Objectives<br/>4. Strategic Value<br/>5. Inherent Risks</p> | <p>(B) 1. Number of Transactions<br/>2. Complexity of Transactions<br/>3. Accuracy of Information</p>  | <p>(C) 1. Attention Given by Management<br/>2. Monitoring Activities</p> |
| <p>(D) 1. Compliance with Regulations<br/>2. Market Stability</p>   | <p>(E) 1. <b><u>Integrity:</u></b> Reliance on Information Systems<br/>2. <b><u>Relevance:</u></b> Ability to Satisfy Business Objectives<br/>3. <b><u>Access:</u></b> Unauthorized Access and Transactions<br/>4. <b><u>Availability:</u></b> Level of Support<br/>5. <b><u>Complexity:</u></b> Relative Number of Transactions, Files, and Devices</p> | <p>(F) Materiality</p>   |
| <p>(G) 1. Training/Experience<br/>2. Risk Assessment<br/>3. Management Interest/Request<br/>4. Follow-up</p>  | <p>(H) 1. Audit Findings<br/>2. Adequacy of Staffing Levels<br/>3. Segregation of Duties</p>   | <p>(I) Opportunity Identification</p>                                    |

The Business Risk Assessment serves as a planning tool to determine the best investment for audit efforts.

Annually, the audit plan prioritizes the Audit Department’s limited resources of people and budget dollars based on MHMRA’s Business Risk Profile and management’s need for vital information. This audit plan prioritizes audit focus on either Agency-wide processes or departments with processes or activities having high or moderate residual risk. As such, the Agency’s audit function serves as a

risk management tool through the development of improved control processes as a result of performance improvement and financial auditing, as well as a control with the performance of the revenue enhancement and compliance audits.

### **Audit Programs**

Audit activities will vary as a result of the differences in the nature of operations, organizational structure and management style, and by the competence, employee capabilities, and concepts of operation control. Specific audit programs will be developed from each activity to be audited within the year ending August 31, 2011.

Audit programs will be designed in regards to business services, compliance requirements, performance considerations, and specialized skills required for each project. All audit programs, workpapers and reports will be conducted in accordance with appropriate professional standards.

The Internal Audit Department will also provide any assistance to the Agency's management when they request special assignments/projects. These special assignments/projects will typically be performed in addition to the normally scheduled audit work planned.

### **FISCAL YEAR 2011 AUDITS**

Approval is requested for the below listed areas to be audited for Fiscal Year 2011. At anytime, a special request/project may warrant an adjustment in the schedule.

The list does not represent any particular order since the order of conducting the audit will, somewhat, depend upon MHMRA's schedule and staff.

1) *Clinic and Business Office* (3)

**Audit Review**

- ▶ Examination and evaluation of the adequacy and effectiveness of the business/clinic office's system of internal controls and reporting upon such controls and other procedures.

Effectiveness:

- Economy
- Efficiency
- Compliance

2) *Unannounced Petty Cash and Change Funds* (4)

**Audit Review**

- ▶ Review controls to provide management with reasonable assurance that funds are adequately safeguarded, disbursed, and replenished in compliance with approved policy and procedure.

3) *Follow Up Reviews and Special Requests*

**Audit Review**

- ▶ Review progress and report to Audit Committee on prior audit findings.

4) *Professional and Other Contractual Services* (3)

**Audit Review**

- ▶ Review contracts/agreements for required compliance as outlined within scope of agreements.

5) Phase I – TOPAZ Clinical Software Project

**Audit Review**

- ▶ Review for budget, time-line and compliance.

6) Annual Executive Staff Expense reports

**Audit Review**

- ▶ Review for compliance with legal regulations and Agency policy and procedures.

7) Fixed Assets

**Audit Review**

- ▶ Review for material accountability, compliance with State contract and Agency policy and procedure requirements.