

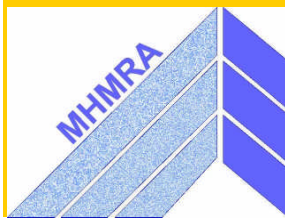
Annual Audit Department Summary

Presented

To

The Board Audit Committee

September 19, 2007



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

Internal Audit Report

AUDITOR'S REPORT

Annual Audit Report
to
Board Audit Committee

Harris County, Texas

September 19, 2007

Henry E. Webb, CFE

Internal Auditor



Report on Fiscal Year 2007

Purpose of the Annual Report: To provide information on the benefits and effectiveness of the internal audit function.

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I. Purpose, Authority and Scope

Pursuant to the Mental Health and Mental Retardation Authority (MHMRA) of Harris County's Internal Audit Department Charter, I hereby submit for review the annual report on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas reviewed by the Internal Audit Department.

All activities of MHMRA are subject to audit review.

The Internal Audit Department is responsible for continuously assessing MHMRA risk and developing audit objectives, priorities, and procedures that will ensure effective internal controls. While management is responsible for providing internal controls, the Internal Audit Department (within the audit scope) is responsible for evaluating their adequacy and effectiveness and for recommending improvements, if necessary. Internal control comprises methods and procedures adapted to:

- * Safeguard assets
- * Check the accuracy and reliability of financial and other data
- * Promote operational efficiency
- * Encourage adherence to prescribed Agency policies and procedures
- * Review operations to ascertain consistency with Agency goals

It is the responsibility of the Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control (including financial controls). This is based on the adequacy of controls noted from a selection of risk-based system audits completed during the year and other advice work on control systems. The results of investigative inquiries, fieldwork of internal reviews, and that of the external reviewing agencies also inform the Internal Auditor's opinion.

Internal Audit works to support MHMRA's achievement of its vision/mission through the strengthening of internal controls, application of proven scientific management principles, alignment of resources, and fraud deterrence. Furthermore, Internal Audit continues to refine the audit approach and methodologies, build stronger levels of proficiency, increase the understanding of MHMRA's unique culture, and build relationships with the Audit Committee, management, and others.

The mission of the internal audit department is to provide independent, objective assurance and consulting services to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and the governance process.

Internal Audit focuses on producing relevant feedback to MHMRA that is useful in the long term toward accomplishing three primary objectives:

- * Avoiding the potential for losses
- * Increasing process efficiency and effectiveness
- * Ensuring resources are applied toward accomplishing MHMRA's vision, mission, and goals.

Internal Audit insures that MHMRA receives an objective opinion designed to *add value* and improve the Agency's operations. Every effort is made to comply with the industry standards, as defined by the **Institute of Internal Auditors' Professional Standards** in satisfying the expectations and needs of management and to adhere to the standards as outlined by the Comptroller General of the United States Government Auditing Standards (Yellow Book). The department conducts audits, scheduled and unscheduled, to provide management an independent appraisal of the Agency's compliance with policies, procedures, laws, and regulations. The department's flexibility insures the Agency's administration the desired level of confidence in maintaining adequate internal controls.

II. Departmental Statement of Goals Process to Assess These Goals, and Assessment Results

Goal #1: Insure compliance with industry standards, as defined by the **United States Government Accountability Office – Government Auditing Standards.**

Assessment for Goal #1: Complied with all applicable continuing education and published standards as outlined in the 2007 published guidelines by the Comptroller General of the United States.

Goal #2: Fulfill the expectations and needs of management.

Assessment for Goal #2: Developed an annual audit plan with the approval of the Agency's Board Audit Committee. Examine and evaluate the adequacy and effectiveness of the Agency's *system of internal controls*.

Goal #3: Conduct both scheduled and unscheduled audits in order to provide management independent appraisals of the Agency's *compliance* with policies, procedures, laws, and regulations.

Assessment for Goal #3: Active testing of accounts and key controls designed to insure compliance. Identify weaknesses and make constructive recommendations to the Agency's administration.

General Statement of Departmental Condition

The Department of Internal Audit has a system of internal quality control that is suitably designed and provides reasonable assurance that applicable auditing standards are followed. Internal audits have been evaluated to insure that a standard of quality controls work effectively and that audits are conducted in conformance with applicable standards.

III. 2007 Key Activities and Accomplishments

The Department does **not** gauge its achievements and success by the number of problems identified but rather how we can assist the Agency. The development and approval of the audit schedule for FY 07, a strong year for audit coverage and the advancement of the Audit Plan, highlighted the year for Internal Audit.

Most audit work begins with an assessment of risk, followed by review of systems and identification of any weaknesses such as inadequate separation of duties, or failure to follow established procedures. Testing of compliance through a sample of transactions confirms that controls are in operation. If necessary, a larger substantive sample is tested to evaluate the extent of any error or loss.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policy and procedures. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

The scope of work completed for FY 07 by the Internal Audit Department did not constitute an evaluation of the overall internal control structure of all units within MHMRA. The examinations were designed to

evaluate and test compliance with established policy and procedures and to test the internal control over tested areas and material.

As a result of the audits and reviews conducted during the FY 07 timeframe, it was determined that departmental compliance with either established or drafted criteria to govern activities reviewed were **adequate**. However, as discussed with the Audit Committee and Management during the reviews, various weaknesses were reported.

**Audits (Approved) and Special Projects Performed
Fiscal Year 2007**

<u>Audit Title</u>	<u>Audit Report Number</u>	<u>Date of Published Audit</u>
<i>Fixed Assets</i>	FA0206	September 8, 2006
<i>Limited Review: The Coffee House</i>	LRCH0107	September 15, 2006
<i>Ripley Business Office – Follow Up</i>	RIPCSC0107	October 9, 2006
<i>Psychiatric Emergency Program Division – Unannounced Petty Cash</i>	CPEP0107	October 11, 2006
<i>Organizational Development and Human Resources (Special Request)</i>	ODHR0107	October 8, 2006
<i>Employee Travel Consumer Direct Care-Reimbursement</i>	TR0107	December 15, 2006
<i>Use of Flexible Fund Accounts – Follow Up</i>	FF0207	January 5, 2007
<i>Crisis Residential Unit #9210 – Unannounced Petty Cash</i>	CRU0107	January 26, 2007
<i>Agency Use of Overtime</i>	AOT0107	March 16, 2007
<i>Wireless Phones and Pagers</i>	CELL0107	March 21, 2007
<i>Home and Community Based Service - Unannounced Petty Cash</i>	HCBS0107	April 2, 2007
<i>Telephone – Land Line</i>	TLL0107	April 13, 2007
<i>Agency Provided Meals</i>	APM0107	May 4, 2007
<i>Crisis Residential Unit #9210 (PC) – Follow Up</i>	CRU0207	May 11, 2007
<i>Fixed Assets/Inventory Control</i>	FA0107	July 2, 2007
<i>Executive Expense Reports</i>	EXE0107	August 17, 2007

IV. Analysis of Findings and Recommendations

Each audit issued contains an “Attachment A” that provides a summary of recommendations of the main findings. Recommendations have priority ratings classified as:

1 – Implement Immediately (30 – 90 days) – Serious internal control deficiencies or recommendations to reduce cost, maximize revenues, or improve internal controls that can be easily implemented.

2 – Work Toward Implementing (6 – 18 months) – Less serious internal control deficiencies or recommendations that can not be implemented immediately because of constraints imposed on the unit (i.e., budgetary, technological constraints,)

3 – Implement in the Future (2 – 3 years) – Recommendations that should be implemented but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation)

Table 1 summarizes the recommendations by priority for FY07.

Table 1
Priority Rating
Audit Recommendations
Fiscal Year 2007

Priority Rating/Ranking	Number of Audit Recommendations
1	47
2	17
3	18
Total Recommendations	82

V. Standard Allocation of Effort by Positions Staff Productivity

Internal Audit measurement solutions provide insight into the effectiveness of the Agency's business plan and procedures. Internal Audit seeks results-focused reviews that deliver improvements in performance, fairness, objectivity, consistency, and decision making.

There are also critical, long-term benefits of a strong measurement review system. It can simply, justify the recommended requests, create an enduring focus, and justify any re-allocation of funds or resources. Most importantly, performance measures are a leading indicator of long-term health and, consequently, represent a long-term planning asset when conducting internal reviews.

Internal Audit has tried to develop and maintain a Road Map from measurement to implementation of its recommendations, which helps MHMRA design and implement a successful measurement solution.

- Learn from best-practice measurement systems,
- Forecast the costs and benefits of measurement systems,
- Identify measures important to the head of the unit,
- Categorize types of measures,
- Weigh tangible and intangible measures,
- Align measures throughout the organization that is audited,
- Link measures to strategic Agency goals,
- Identify roadblocks to measure development,
- Gain employee buy-in to the measurement system recommendations,
- Automate processes and procedures,
- Measure the effectiveness of shared services,
- Measure cross-functional processes,
- Monitor and manage using key measures,
- Ensure the consistency and integrity of measures,
- Prepare for changes in strategy or operations,
- Translate measured results into further action,
- Compare output to outcome, and

- Determine the frequency of gathering data and reporting

Internal Audit tries to accomplish these tasks through the use of a 'budgeted hours' approach, in other words, any activity undertaken is measured in hours and effort by position.

Table 2 presents FY 07 standard allocation of effort by all positions.

Table 2
Standard Allocation of Effort by all Positions
Fiscal Year 2007

	Priority Budgeted Hours	Actual Hours Utilized	Over <Under> Total/Actual Hours
Regular Hours	4,160	4,376	216
Vacation	(40)	40	0
Holidays	(176)	176	0
Sick	(40)	40	0
Training	(40)	40	0
Travel	(60)	60	0
Administration	(80)	140	60
Approved Audits	(1,024)	1,110	86
Audit Follow Up	(460)	480	20
Special Audit Requests	(360)	385	25
Management Requests	(480)	485	5
Misc.	(320)	340	10

Hours Required (3,080) 3,296

Net Hours Over <under> Budget* **216**

* *Accomplished through off-hours*

Overall for the year, Internal Audit delivered 216 total hours above budgeted (4,376 actual versus 4,160 budgeted). There were positive variances (more hours devoted than budgeted) for Agency audit activities. As was the case last year, indirect hours (which include vacation, professional development, and administrative activity) were in line with the original budget.

Efforts by Internal Audit to improve the understanding of the unique nature of MHMRA have received strong support from staff and management. Internal Audit participated in the following professional training areas during FY07:

- * Medical Fraud – Association of Certified Fraud Examiners – Houston Texas
- * Yellow Book Standards 2007 Update – The University of Texas – LBJ School of Public Affairs

The Department of Internal Audit is committed to the support of the Agency's continuous pursuit of maintaining its high level of standards and ethics in providing the MHMRA community with opportunities to continuously improve their intellect and personal development. The Department's mission is to add value, insuring the Agency continues to provide customers with the highest quality of services in the most efficient and effective manner to meet or exceed its overall goals.

During FY 07 Internal Audit introduced a Client Satisfaction Survey which was issued two weeks after each audit was finalized. The following presents the average/overall score for FY 07:

Client Satisfaction Survey

Audit Report: _____ **No.** _____

Please take a moment to rate the service Internal Audit has provided to your area, or if you would prefer to talk with someone directly, please give the Internal Auditor, Henry Webb a call at (713)970-7388. In addition, the bottom of each section, the survey has a narrative feedback option. Thank you for participating in our survey. Your feedback is important to us and will be kept confidential.

1 = Disagree/Poor 3= Neutral 5 = Agree/Excellent Not Applicable=N/A

Please evaluate your recent audit experience for each of the following criteria:

		<u>Score</u>
<u>PROFESSIONALISM</u>		
1.	Auditor(s) conducted his or herself professionally	<u>5.0</u>
2.	Auditor(s) exhibited an understanding of your department operations/procedures.	<u>4.4</u>
3.	Auditor was prepared and organized throughout the auditing process.	<u>5.0</u>

Comments:

COMMUNICATION

4.	Audit objective was clearly stated at the beginning of audit process.	<u>4.6</u>
5.	Auditor(s) conducted a closing meeting which included an explanation of the next steps.	<u>5.0</u>
6.	Audit report was clearly written and logically organized.	<u>5.0</u>

Comments:

CUSTOMER SERVICE

7.	Timely issued of the audit report.	<u>5.0</u>
8.	Audit recommendations were constructive, relevant and actionable.	<u>4.4</u>
9.	Audit report added value to your organization.	<u>5.0</u>

Comments:

Name and Date: (optional)

“IA is always professional and prepared. Findings are sometimes costly and difficult to resolve. However, benefit must be weighed against the risk. Very much needed service to the Agency.”

“Communication was intermittent and thorough. Process is very important to the Agency and was handled well.”