

**EXPENSE AND CREDIT CARD USE
FOR
EXECUTIVE STAFF AND BOARD MEMBERS**

Audit Report No. EXE0106

June 23, 2006



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

Internal Audit Report

AUDITOR'S REPORT

**Expense and Credit Card Use
For
Executive Staff and Board Members**

Harris County, Texas

Internal Audit Report

June 23, 2006

Henry E. Webb, CFE

Internal Auditor





June 23, 2006

Steven B. Schnee, Ph.D.
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7011 SW Freeway
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RE: Review of Expense and Credit Card Use For Executive Staff and Board Members

BACKGROUND

Travel and Travel-Related Reimbursement

Mental Health and Mental Retardation of Harris County (MHMRA) Executive Staff and employees attend a variety of local and out-of-county conferences, conventions, seminars, workshops, and meetings to gain knowledge specific to their area of responsibility, enhance professional skills, and conduct MHMRA business. MHMRA's travel policy outlines procedures for employees to obtain approval for and reimbursement of travel expenses connected with both local and out-of-county travel. It designates those responsible for authorizing travel and sets forth the procedures and forms necessary to obtain approval for travel and reimbursement of travel expenses. The policy also distinguishes between travel expenses that are eligible and not eligible for reimbursement. The policy applies to all salaried and nonsalaried MHMRA employees and to members of the Board of Trustees and the various Advisory Councils.

Members of the Board of Trustees and the various Advisory Councils are reimbursed under the same terms and conditions as employees with the following exceptions:

No application or Approval of Leave form is necessary; the expense report may be completed by the Executive Director; and it is not necessary for a Board Member to sign the Travel Expense Report, needing only the Executive Director's signature for processing payment.

Employees are reimbursed for all travel at the current allowable rate per mile as directed by the Executive Director (\$.39 per mile). When travel is required to a location prior to the employee going to his/her unit, the employee will be reimbursed for the mileage exceeding that which they would normally travel between their home and their office.

In order to be reimbursed, employees must file an Expense Report for In-County Travel (**BUS-F/B:6.001**). Payment to the staff member is processed and paid within the current Agency cash disbursement schedule. All travel must be submitted in ink and signatures signed in ink.

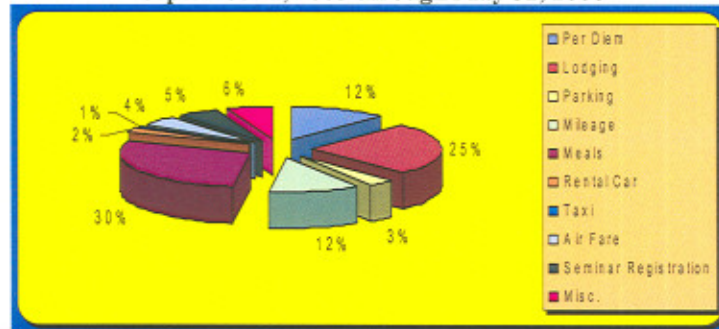
Parking fees and tolls are paid if a receipt accompanies the travel report. Parking meter fees are paid without a receipt.

An Expense Report for In-County Travel is to cover expenses incurred during an entire month. Only one (1) report is to be submitted for each calendar month. Proof of auto liability insurance must be attached to the expense report and the auto liability insurance must be under the driver's name.

MHMRA incurred \$15,121, or approximately \$83 per work day for Executive Staff personal reimbursable related expenses. The Agency further incurred \$26,071, or approximately \$143 per work day for Executive Staff credit card use. The charges for Executive Staff expenses totaled \$41,193 for the audit period, or approximately \$226 per work day.

Exhibit 1 presents total personal reimbursable Executive Staff related expenses incurred during this period. MHMRA's fiscal year runs from September 1 through August 31.

Exhibit 1
MHMRA of Harris County
Personal Reimbursement
Executive Staff and Board Member Expenses
September 1, 2005 through May 31, 2006



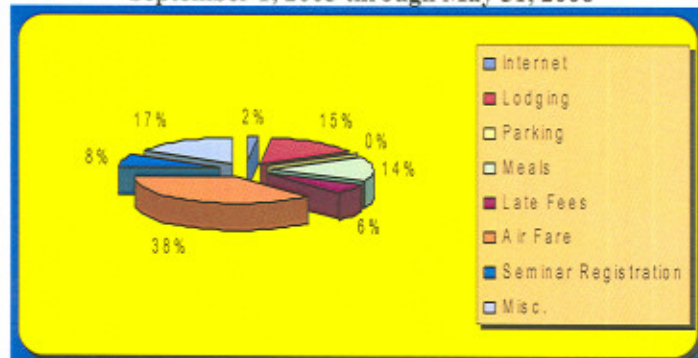
Per Diem	Lodging	Parking	Mileage	Meals	Rental Car	Taxi	Air Fare	Seminars	Misc.
\$1,835	\$3,848	\$472	\$1,745	\$4,360	\$352	\$178	\$673	\$785	\$874

Credit Card Use

Bank of America

As of the audit period, MHMRA has authorized the use of four (4) credit cards from Bank of America to be used primarily for travel and emergency purchases. Each month, Accounts Payable receives a combined statement and a travel statement. The four (4) cardholders receive a statement, which they use to verify and reconcile their charges (Executive Staff credit card charges are presented in Exhibit 2). In order to avoid late fees, MHMRA has recently converted to payment of the credit card charges by Electronic Funds Transfer (EFT).

Exhibit 2
MHMRA of Harris County
Credit Card Charges
Executive Staff and Board Member Expenses
September 1, 2005 through May 31, 2006



Internet	Lodging	Parking	Meals	Late Fees	Air Fare	Seminars	Misc.
\$457	\$3,992	\$63	\$3,752	\$1,546	\$9,766	\$2,055	\$4,440

OBJECTIVES

The overall objectives of the audit were to determine whether the departments:

- Managed and used resources in an efficient, effective, and economical manner
- Administered funds in compliance with applicable laws, regulations, policies and procedures
- Implemented internal controls to prevent or detect material errors and irregularities

The specific objective in this audit was to:

- Assist management with the assessment of the adequacy of internal controls related to recording, reporting, and safeguarding the Agency's control over Executive Staff expense accounts.

SCOPE

The scope of the work did not constitute an evaluation of the overall internal control structure of the units. The examination was designed to evaluate and test compliance with established policies and procedures and to test the internal control over tested areas and material. The audit scope was from September 1, 2005 through May 31, 2006.

Department management is responsible for establishing and maintaining a system of internal controls to adequately comply with approved policies 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 in a timely manner. 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 purpose of the audit report is to furnish management independent, objective analyses, recommendations, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. The audit report is not an appraisal or rating of management.

Although due professional care in the performance was exercised, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud will be detected. Specific areas for improvement are addressed later in this report.

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. Internal Audit would like to thank management and staff for their cooperation throughout the audit.

METHODOLOGY

In order to meet the objectives, Internal Audit evaluated controls over the use of Executive Staff expense accounts, and reviewed policies and procedures for compliance and completeness. MHMRA staff was interviewed and audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 95%, expected error rate of 5%, and a desired precision of +/-5%. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to afford a reasonable basis for the judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. An audit also includes assessing the estimates, judgments, and decisions made by Agency management. It is believed that this audit provides a reasonable basis for the findings, conclusions, and recommendations.

RESULTS

As a result of the audit procedures and surveys conducted, it was determined that departmental compliance with either established or drafted criteria to govern Executive Staff expense accounts as well as credit card use is adequate. However, it was discovered that certain internal controls need to be strengthened. These and other items are discussed below.

FINDING

Ineligible Expenses

In six instances, ineligible expenses were charged to MHMRA and were reimbursed. **Exhibit 3** presents charges that were reimbursed by MHMRA for ineligible items.

**Exhibit 3
Ineligible Expenses Charged to MHMRA**

Transaction Reference	Description of Expense	Ineligible Amount
Receipt #48	Alcoholic Beverage	7.50
Receipt #1560039	Alcoholic Beverage	9.50
Receipt #7816	Alcoholic Beverage	2.00
Receipt #79347	Valet Parking	23.00
Receipt #789034	In Room Movie	11.98
Receipt #807	Per Diem and Meal Paid	6.86
Invoice #343577	Donated Item	48.70

It was further noted that the Agency credit card was given by Executive Staff to members of their department for use on out-of-county trips. In addition, a purchase was made using the Agency credit card which was a previously donated item and should have been reimbursed by the donating parties.

Recommendation

Both the Department of Aging and Disability Services and the Texas Department of State Health Services require that the Agency comply in all respects with the Uniform Grant Management Standards (UGMS). Section 4 of UGMS states: *“Alcoholic beverages. Cost of alcoholic beverages are unallowable.”*

- It is recommended that Executive Staff be reminded that if alcoholic beverages are to be purchased, the cost for the alcoholic beverages will not to be reimbursed by the Agency.
- Valet parking is not a cost that is considered to be a reimbursable expense under current Agency policy and procedures.
- In-Room Movies are not a cost that is considered to be a reimbursable expense under current Agency policy and procedures.
- Staff are paid a per diem for travel, and any cost over that amount is not considered a reimbursable expense under current Agency policy and procedures.
- It is recommended that the cost, listed in **Exhibit 3** be reimbursed to the Agency.



Henry E. Webb

Cc: Rose Childs, MSW, CSWM, Deputy Director, Mental Health Division
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division
Avrim Fishkind, MD, Medical Director, Comprehensive Psychiatric Emergency Program Division
Sarah Flick, MD, Medical Director, Mental Retardation Services
Sylvia Muzquiz, MD, Medical Director, Mental Health Services
Jeanne Mayo, MS, JD, General Counsel
David Witt, MPA, CPA, Chief Financial Officer
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Charles O. Buckner, CPA
Vicki S. Raynold, CPA
Bob Borochoff

ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
June 23, 2006

Unit: Executive Staff		
Area: Expense Accounts		
Inherent Risk: Low Moderate High	Control Environment: Well Controlled Acceptable Poorly Controlled	Overall Risk: Low Moderate High
Type of Procedures: Audit		
Scope: <ul style="list-style-type: none"> * Using Internal Control Evaluation (ICEs) forms, documented the internal controls * Conducted a preliminary survey reviewing applicable policies and procedures, etc. * Interviewed various staff to obtain understanding of management controls * Examined detailed invoices/work orders, statements provided by the vendor, etc. 		
Priority Rating: 1 1 1 1 1	Audit Recommendations: Executive staff should be reminded that when alcoholic beverages are purchased, MHMRA will not provide reimbursement. Valet parking is not a reimbursable item under current Policy and Procedures. Executive staff should not allow Agency credit cards to be used by other staff members. When receiving a per diem amount, any amount spent above that will be at staff expense. In-Room movies are not a reimbursable cost.	
Follow-up: 1 year		

Priority Rating

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 towards 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, etc.).
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, or require third party cooperation, etc.).