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**OFFICE OF THE INTERNAL AUDITOR**

**AUDIT PLAN**

**SEPTEMBER 1, 2006 THROUGH AUGUST 31, 2007**

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

**Henry Webb, Internal Auditor**



INTERNAL AUDIT  
MHMRA OF HARRIS COUNTY

July 3, 2006

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 2007 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 Internal Audit. 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,

Henry E. Webb, CFE  
Internal Auditor

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## OFFICE OF THE INTERNAL AUDITOR

### Audit Plan

#### Fiscal Year 2007

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 the continual request 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**

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 then a systematic identification of those things that could prevent each objective from being attained. In other words, it's 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. So, 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.

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:

#### **Nature of Operations**

- 1) Significant Changes
- 2) Pressure Meeting Objectives
- 3) Clearly Defined Objectives
- 4) Strategic Value
- 5) Inherent Risks

#### **Nature of Transactions**

- 1) Number of Transactions
- 2) Complexity of Transactions
- 3) Accuracy of Information

#### **Management**

- 1) Attention Given by Management
- 2) Monitoring Activities

#### **External Influences**

- 1) Compliance With Regulations
- 2) Market Stability

#### **Systems**

- 1) Integrity: Reliance on Information Systems
- 2) Relevance: Ability to Satisfy Business Objectives
- 3) Access: Unauthorized Access and Transactions
- 4) Availability: Level of Support
- 5) Complexity: Relative Number of Transactions, Files, and Devices

#### **Dollar Volume/Materiality**

- 1) Materiality

#### **Changes in Procedures/Personnel**

- 1) Training/Experience

- 2) Adequacy of Staffing Levels
- 3) Segregation of Duties

#### **Results of Prior Audits/Management Interest**

- 1) Audit Findings
- 2) Follow-up

#### **Time Since Last Audit**

- 1) Prior Audit Published

#### **Opportunities to Achieve Operating Benefits**

- 1) Opportunity Identification
- 2) Risk Assessment
- 3) Management Interest/Request

Department processes or activities with high or moderate residual risk are noted in the Agency's current Business Risk Assessment Model.

#### **Audit Focus Areas**

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 the audited within the year ending August 31, 2007.

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 normally be performed in addition to the normally scheduled audit work planned.

#### **FISCAL YEAR 2007 AUDITS**

Approval is requested for the below listed areas to be audited for Fiscal Year 2007. 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) New Clinical Software  
**Audit Review**

- Test and review progress as outlined by Project Management work papers and budget variances – (539 Hours Scheduled)
- 2) Grant Review - Special Education Grants for Infants and Families with Disabilities (IDEA, Part C) – (320 Hours Scheduled)
- Audit Review**
- Test and review original grant documents to determine if the fiscal operations are in line with sound business controls and objectives
- To determine if management has complied with applicable grant agreement, laws, and regulations
- 3) Agency Use of Overtime – (460 Hours Scheduled)
- Audit Review**
- Test and verify that proper authorization, reporting, and policy and procedures are adequate to provide assurance that the Agency receives a quality result for time expended.
- 4) Business Office and Business Functions at various locations – (1,220 Hours Scheduled)
- Audit Review**
- Examination and evaluation of the adequacy and effectiveness of the business office's system of internal controls and reporting upon such controls and other procedures:
- Effectiveness
  - Economy
  - Efficiency
  - Compliance
- 5) Fixed Assets – (120 Hours Scheduled)
- Audit Review**
- Detail testing to confirm adequate safeguard of process, administration, and security of Agency Fixed Assets/Inventory
- Review of internal control structure for adequate asset safeguards
- Supporting procedural documents are effective and followed
- 6) Unannounced Petty Cash – (80 Hours Scheduled)
- Audit Review**
- Review controls to provide management with reasonable assurance that the funds are adequately safeguarded, disbursed, and replenished in compliance with approved policy and procedure
- 7) Follow Up Reviews and Special Requests – (638 Hours Scheduled)