

FRIENDS OF MHMRA OF HARRIS COUNTY

Audit Report No. FMHMR0110

February 19, 2010



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

Internal Audit Report

AUDITOR'S REPORT

Friends of MHMRA of Harris County

Harris County, Texas

Internal Audit Report

February 19, 2010

Henry E. Webb, CFE

Internal Auditor





February 19, 2010

Steven B. Schnee, Ph.D.
President
Friends of MHMRA of Harris County
7011 SW Freeway
Houston, TX 77074

RE: Friends of MHMRA of Harris County
(**Report No. FMHMR0110**)

BACKGROUND

Friends of MHMRA of Harris County was issued a Certificate of Incorporation effective February 10, 2005 by the State of Texas, Office of the Secretary of State. The corporation is organized exclusively for religious, charitable, scientific, testing for public safety, literary or educational purposes, or the prevention of cruelty to children or animals as defined in section 501 (c)(3) of the Internal Revenue Code of 1986, as amended. More specifically, the corporation is organized solely and exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the Mental Health and Mental Retardation Authority of Harris County, an authority organized under §533.035 of the Texas Health & Safety Code, or corresponding provisions hereafter in effect.

No substantial part of the activities of the corporation shall be carrying on propaganda, or otherwise attempting to influence legislation, and it shall not participate in, or intervene in (including the publishing or distribution of statements), any political campaign on behalf of or in opposition to any candidate for public office.

Except as otherwise provided in the articles and bylaws of the corporation, there shall be not less than three (3) members of a board of directors. The directors shall continue to serve until their successors are selected in the manner provided in the bylaws of the corporation.

The Corporation shall have one (1) member. The member of the Corporation is the Mental Health and Mental Retardation Authority of Harris County, which is a governmental authority.

The member is required to hold an annual meeting and may hold additional meetings as needed.

The officers of the Corporation shall be the president and a secretary, and may include a treasurer and such other officers as may be determined and selected by the Board. As of the audit, the Corporation had a president, secretary and treasurer.

The Corporation has a formal conflict of interest policy within the bylaws of the Corporation. Each director, principal officer and member of a committee with Board delegated powers is required to annually sign a statement which affirms that the person:

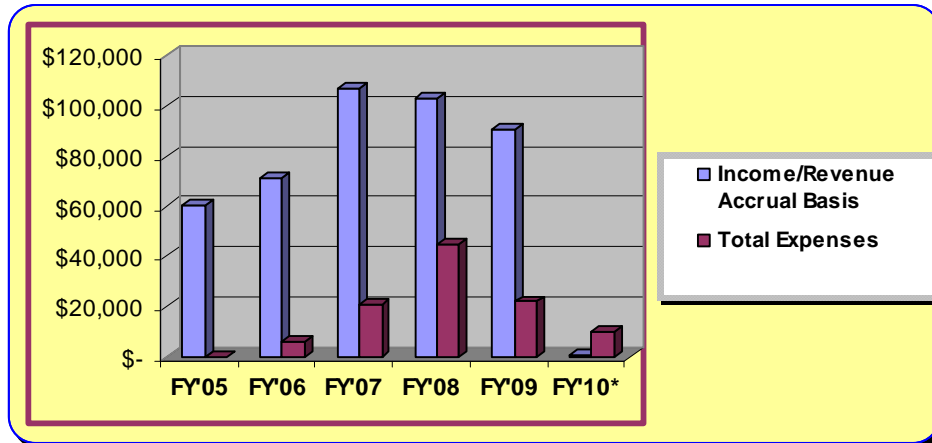
- (a) has received a copy of the conflict of interest policy,
- (b) has read and understands the policy,
- (c) has agreed to comply with the policy, and
- (d) understands that the Corporation is a charitable organization and that in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

The Corporation is required to keep books and records of accounts and minutes of the proceedings of its Member, its Board and each committee of its Board.

The MHMRA Board of Trustees have the ability to appoint and remove directors and officers of Friends of MHMRA of Harris County and has substantial financial accountability for Friends. The corporation further operates exclusively for the benefit of and to perform the functions of the Agency. Accordingly, Friends of MHMRA of Harris County is included in the Agency’s basic financial statements as a blended component unit.

Graph 1 presents Friends of MHMRA of Harris County’s revenue/income and expenses for Fiscal Year 2005 through Fiscal Year 2010 (December 31, 2009).

Graph 1
Friends of MHMRA of Harris County
Revenue/Income (includes interest income) and Expenses
Fiscal Years 2005 – 2010 (December 31, 2009)



*Income/Revenue September 1, 2009 – December 31, 2009

OBJECTIVES

The objectives of the audit were:

- evaluate internal controls within Friends of MHMRA of Harris County;
- verify that transactions were made correctly, accurately accounted for, and properly supported;
- evaluate compliance with policy, procedures, and laws and regulations.

SCOPE

The scope of the work did not constitute an evaluation of the overall internal control structure of the unit. The examination was designed to evaluate and test compliance with established policy and procedures and to test the internal control over tested areas and material. The audit scope period was from September 1, 2008 through December 31, 2009.

Department 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 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 the management and staff for their cooperation throughout the audit.

METHODOLOGY

In order to meet the objectives, Internal Audit used process mapping and evaluated controls found in the Corporation of Friends of MHMRA of Harris County, reviewed the accounting system for accuracy relating to payment of warrants, as well as reviewed policies and procedures for compliance and completeness. Accounts Payable, Accounting, Information Technology, Purchasing/Contracts and volunteer staff were 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 compliance with established criteria to govern Friends of MHMRA of Harris County generally meet the guidelines set forth in the Certificate of Incorporation, Articles of Incorporation and Bylaws of Friends of MHMRA of Harris County.

Internal Audit did issue a Minor Issues Memo which was provided to the Officers of the Corporation as well as the Board Audit Committee of MHMRA of Harris County. A Minor Issues Memo is concerns that were noted during the audit but were not considered significant enough to be included in the audit report. Since these items were not included, a formal response from management was not required. These items are provided for informational purposes only.

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Henry E. Webb, CFE, Internal Auditor

Cc: Rose Childs, MSW, Deputy Director, Mental Health Division
Kenneth Collins, LMSW, Deputy Director, Mental Retardation Division
Barbara Dawson, MSE, Deputy Director, Comprehensive Psychiatric Emergency Program Division
Daryl Knox, 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
Alex Lim, MBA, CPA, Chief Financial Officer
Scott Strang, Ph.D., MBA, Chief Operating Officer
External Audit Firm
Audit Committee:
Tom Hamilton, Ph.D. (Chairman)
Jane B. Cherry
Paige M. Cokinos
Charles O. Buckner, CPA
Vicki S. Raynold, CPA
Bob Borochoff

ATTACHMENT A
SUMMARY OF RECOMMENDATIONS
February 19, 2010

Unit: Friends of MHMRA of Harris County		
Area: Compliance Audit		
Inherent Risk:	Control Environment:	Overall Risk:
Low <i>Moderate</i> High	Well Controlled <i>Acceptable</i> Poorly Controlled	Low <i>Moderate</i> High
Type of Procedures: Audit		
Scope: * 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:	Audit Recommendations:	
	<i>Review Minor Issues Memo</i>	
Follow-up: As Risk Assessment Warrants		

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.).