

**AGENCY PROVIDED MEALS**

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**Audit Report No. ML0107**

**May 04, 2007**



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

**Internal Audit Report**

**AUDITOR'S REPORT**

**Agency Provided Meals**

**Harris County, Texas**

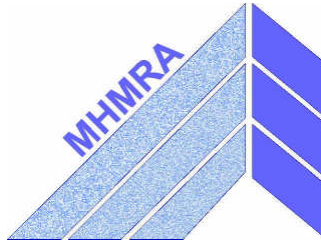
**Internal Audit Report**

**May 4, 2007**

**Henry E. Webb, CFE**

**Internal Auditor**





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

May 4, 2007

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

Re: Agency Provided Meals Audit  
(Report No. ML0107)

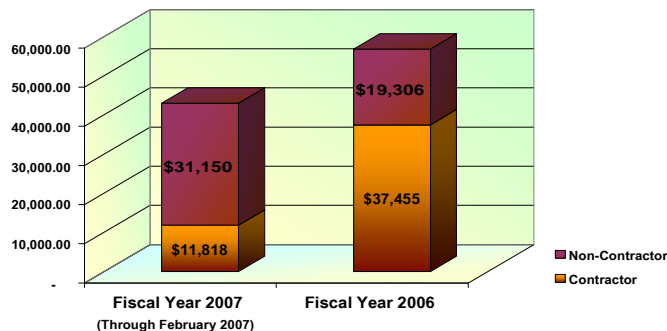
**BACKGROUND**

The Mental Health and Mental Retardation Authority of Harris County (MHMRA) generally provide meals for business activities, such as Board and staff meetings. Currently, Hungry’s Café & Bistro is contracted and budgeted to provide the service. Other non-contracted food services are requested at the unit management’s discretion, and food service requests are non-restrictive to Divisions, Departments and/or Units.

The Office of Management and Budget (OMB) created OMB Circulars for cost determination standards that promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. These Circulars provide guidance in determining allowable and unallowable costs pertaining to meals.

**Exhibit 1** presents total cost of meals provided by the Agency for Fiscal Years 2006 through Fiscal Year 2007.

**Exhibit 1  
Contracted and Non-contracted Food Services  
Provided by MHMRA  
For Fiscal Year 2006 and 2007**



**Exhibit 2** presents the Agency-provided meal expenditures for the period September 2005 through February 2007.

**Exhibit 2**  
**Meal Expenditures**  
**For the Period September 2005 through February 2007**

Unit	Total
Mental Health	\$55,116
Finance	\$14,180
Mental Retardation	\$11,635
Executive	\$8,525
Psychiatric Emergency Program	\$4,254
Other - Administration	\$3,715
Human Resources	\$754
Risk Mgt. & Legal Services	\$522
Information Technology	\$360
Quality Management	\$334
Building & Facilities	\$263
Purchasing	\$70

### OBJECTIVE

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

- Determine whether criteria have been established to comply with applicable regulations, laws and appropriate business practices

### SCOPE

The scope of the audit 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, procedures, laws, and regulations and to test internal control over tested areas and material. The audit scope was from January 1, 2006 through February 28, 2007.

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 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 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 employees’ meal activities, and reviewed contracts, regulations, financial activities, policies and procedures for compliance and completeness. MHMRA staff was interviewed and research, audit tests and procedures were conducted as considered necessary.

The sample size and selection were statistically generated using a desired confidence level of 95%, an 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 of 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**

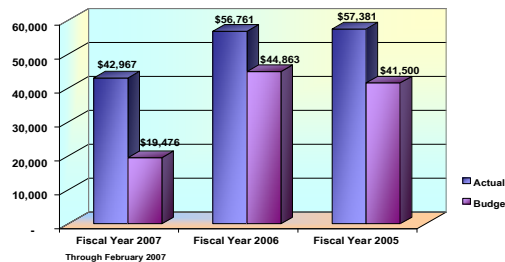
As a result of the audit procedures and surveys conducted, it was determined that controls over Agency-provided meals are inadequate, ineffective, and do not provide management with reasonable assurance that assets are adequately safeguarded, disbursed and controlled. The control activities which require strengthening are presented in the body of the report.

**FINDING**

*Policy and Procedure*

Costs for meals, transportation, facility rental and speakers’ fees for meetings and conferences that primarily disseminate technical information, are considered allowable for ‘business’ type meetings. Costs for amusement, diversion and social activities are considered entertainment costs, which are not allowable.

Currently, the Agency has not established a policy to effectively administer business meals that are provided for by the Agency. Although meals are annually budgeted and contracted with a vendor (Hungry’s Café & Bistro), actual costs have consistently exceeded budgeted amounts. The following chart presents actual and budgeted costs for Agency-provided meals for the last three fiscal years:



The results of evaluating 42 samples indicated that 2 purchases deviated from allowable costs. (Refreshments were provided for employee training and a social event.) 19% of samples selected were purchases made from the contractor. 81% indicated purchases made from various markets, donut shops and restaurants.

### **RECOMMENDATION**

To provide reasonable assurance that Agency-provided meal expenditures are effectively administered and in compliance with regulations, an approved policy should be established. The following general guidelines should be considered in order to provide adequate controls:

- Define meal purpose – business function
- Define allowable and unallowable meal costs consistent with OMB Circulars
- Obtain Authority or designee’s approval
- Review Unit or Department’s budget - budget at realistic levels
- Provide guidelines for reasonable meal costs, tips and/or gratuities

### **Management Response**

*“We will work towards getting budget and actual aligned. We had a one time major expense that we did not know about until after budgeting was completed.”*

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Henry E. Webb, CFE, Internal Auditor

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Cheire Lee, Staff Internal Auditor

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 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  
 Sivam Mahasivam, CPA, External Audit Firm  
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     Tom Hamilton, Ph.D. (Chairman)  
     Bob Borochoff  
     Charles O. Buckner, CPA  
     Jane B. Cherry  
     Paige M. Cokinos  
     Vicki S. Raynold, CPA

**ATTACHMENT A**  
**SUMMARY OF RECOMMENDATIONS**  
**May 4, 2007**

Unit: Agency-Wide		
Area: Agency Provided Meals		
Inherent Risk: Low Moderate <b>High</b>	Control Environment: Well Controlled Acceptable <b>Poorly Controlled</b>	Overall Risk: Low Moderate <b>High</b>
Type of Procedures: <b>Audit</b>		
Scope: <ul style="list-style-type: none"> <li>* Using Internal Control Evaluation (ICEs) forms, documented internal controls</li> <li>* Conducted a preliminary survey reviewing applicable policies and procedures, etc.</li> <li>* Interviewed various staff, obtain understanding of management controls</li> <li>* Examined detailed receipts, vouchers, and supporting documentation</li> </ul>		
Priority Rating: 1 1 1 1 1	Audit Recommendations: Define meal purpose - business function Define allowable and unallowable meal costs consistent with OMB Circulars Obtain Authority or designee's approval Provide guidelines for reasonable meal costs, tips and/or gratuities Review Unit or Department's budget - budget at realistic levels	
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).
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).